

# **FINANCIAL SERVICES AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2011**

**THURSDAY, MARCH 18, 2010**

U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.*

The subcommittee met at 2:40 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Richard J. Durbin (chairman) presiding.

Present: Senators Durbin and Collins.

## **UNITED STATES POSTAL SERVICE**

**STATEMENT OF HON. JOHN E. POTTER, POSTMASTER GENERAL,  
CHIEF EXECUTIVE OFFICER**

### **OPENING STATEMENT OF SENATOR RICHARD J. DURBIN**

Senator DURBIN. My apologies to those of you who were here on time when we weren't. I would like to blame the Senate leadership, except I'm part of it.

And we had a rollcall that went a little bit longer than we expected.

Good afternoon. And I'm pleased to convene this hearing before the Senate Appropriations Subcommittee on Financial Services and General Government. Our focus today is on the financial circumstances facing the United States Postal Service (USPS). This is the first in a series of hearings which we're planning this spring as we start to develop our fiscal year 2011 spending bill.

I'm glad that my friend and fellow member of the subcommittee Senator Susan Collins of Maine is here today. And other colleagues may join us, as their schedules allow.

We are all familiar with that famous maxim, "Neither snow nor rain nor heat nor gloom of night stays these couriers from the swift completion of their appointed rounds." Its origin is a reference to the ancient courier service of the Persian Empire in Herodotus' "Histories," dating to 450 B.C. It's also inscribed over the James Farley Post Office in New York City. And it has, over time, been an often-spoken but unofficial motto ascribed to the dedicated work of the men and women of the United States Postal Service.

America's Postal Service has enjoyed a vibrant history, dating back to the system instituted by Benjamin Franklin, as chairman of the committee of the Second Continental Congress in 1776. This history is rooted in a single, stalwart principle, that every person

in the United States, no matter who, no matter where, has the right to equal access to secure, efficient, and affordable mail service.

Today alone, letter carriers and truckers will drive 4.1 million miles to deliver 584 million pieces of mail to more than 150 million residences, businesses, and post office boxes across our Nation. Today alone, 1.1 million customers will go online to the Postal Service Web site to conduct \$608,000 worth of postal business, and another 7 million customers will go into a physical post office building. Today alone, \$224.4 million in revenue will be received, 584 million mail pieces will be processed and delivered, 115,000 plus address changes will be processed, 3,000 plus new addresses will be added to the postal network, and 402,000 plus gallons of fuel will be consumed. And today alone, like each day of the year, no tax dollars will be used to operate the United States Postal Service.

Even amid these captivating day-in-the-life statistics, we continue to witness a remarkable, even revolutionary, transformation of the modes of personal communication and business interchange, from electronic mail and online bill paying, to instant messaging and social networking, via the Internet. As a result, mail volume has continued to spiral in decline, dropping from 213 billion pieces in 2006 to 177 billion pieces last year. Couple this with an economic recession, and you see circumstances that have dramatically impacted the ability of the U.S. Postal Service to thrive and to meet its goals.

The Postal Service recently unveiled an action plan of proposals to address grim realities that its expenses will likely continue to outpace revenues. It is prudent that we engage in a thoughtful and open national dialogue on the wisdom of the solutions proposed by the Postal Service.

Monday through Saturday mail delivery dates back to 1863. It's been mandated in our annual appropriations bill for over a quarter of a century. I didn't know that. I knew it was in there, but nobody ever talked about it until there was a proposal to go to 5-day service, and then they said, "Senator Durbin, Senator Collins, this is your issue." And that's why we're here today.

Serious questions need to be asked and answered before Congress simply changes the course and embraces major changes in mail delivery. Who will benefit? Who is going to be harmed? Can we mitigate the impact? What savings will actually be gained? How reliable are the estimates that we're working with? What will we sacrifice? Will it drive mailers away or divert more commerce to the Internet or postal competitors? Have all the options been identified and explored? Will a reduction in delivery service enhance, or will it hinder, the long-term position of the Postal Service as a vital component of America's economy, a \$900 billion industry? Even if the delivery frequency is changed, is the Postal Service still contemplating a rate hike and closing or consolidating facilities? What will be the impact on the postal workforce? I think these issues are just the tip of the iceberg. We'll start talking about them today.

As the chairman of this subcommittee of jurisdiction, which provides a small stream of annual reimbursement payments, known as "revenue foregone," and the current author of the bill that carries

the nearly 30-year-old mandate that 6-day delivery and rural delivery of mail shall continue at no less than the 1983 level, I welcome the opportunity to provide this forum. I'm also interested in learning more details about the array of proposed reforms. I am going to welcome the Postmaster General, after I yield to my colleague, the ranking member of this subcommittee, Senator Susan Collins of Maine.

#### STATEMENT OF SENATOR SUSAN COLLINS

Senator COLLINS. Thank you, Mr. Chairman.

Let me begin by expressing my appreciation to you for holding this important hearing to discuss the dire and declining financial condition of the Postal Service, an institution that is critical to our economy and our way of life.

The Postal Service, as the chairman has pointed out, is one of our oldest institutions. It is the lynchpin of a \$900 billion mailing industry that employs close to 9 million people in businesses as diverse as paper manufacturing, printing, catalog companies, publishing, newspapers, and financial services.

I must say, Mr. Chairman, that I'm experiencing a sense of déjà vu in attending today's hearing on this topic. The Homeland Security and Governmental Affairs Committee has held 14 hearings related to the Postal Service and its financial crisis since 2003, and I chaired the vast majority of those hearings. I want to commend you, Mr. Chairman, for holding another hearing to address this complex and seemingly eternal issue.

Nine years ago, in 2001, the Government Accountability Office (GAO) first placed the Postal Service on its high-risk list, because it faced formidable financial, operational, and human capital challenges that threatened its long-term viability. Five years later, as the result of the passage of postal reform legislation in 2006, which I authored with Senator Carper, the GAO removed the Postal Service from the high-risk list. But, last year the Postal Service, losing billions, and facing a crisis, once again was added to the high-risk list.

Approximately every 3 years—in 2003, in 2006, and again last year, in 2009—the Postal Service has come to Congress seeking relief from its financial obligations in exchange for promises of future profitability. The Postmaster General's request to Congress for relief from its retiree health benefit payments and from its obligation to deliver mail 6 days a week is just the most recent in a long history of Postal Service requests for financial assistance in exchange for the promise of becoming financially solvent—someday.

In 2003, Congress passed postal reform legislation—I coauthored—that reduced the Postal Service's pension costs by approximately \$9 billion. In 2006, the Postal Accountability and Enhancement Act that Senator Carper and I authored relieved the Postal Service of a \$27 billion obligation, primarily by transferring the Postal Service's obligation for retirement benefits for its employees with prior military service to the Treasury Department. In 2009, Congress voted, at the Postal Service's request, to reduce by \$4 billion a retiree health benefits payment that was due on September 30. I reluctantly supported this reduction, too—in fact, I cast the

deciding vote—because the fact is that the Postal Service simply could not make the full payment.

My point is, and my frustration is, that, over and over again, the Postmaster General has promised that if only Congress would allow the USPS relief from its financial obligations and take other actions, it would be on a solid financial footing. But, time and time again, I've been disappointed in the results after I've agreed to these requests; indeed, led the fight on these requests.

During the past year, the Postmaster General has been particularly critical of the payment stream set up in the 2006 law in exchange for the elimination of the expense of the escrow requirement and the transfer of the retirement obligations for employees with previous military service to the General Treasury. Yet, this very payment obligation from which the Postal Service now seeks relief was part of a recommendation from the Postal Service to prefund its future retiree health benefits. When the law passed in 2006, here's what the Postal Service said, and I quote: "The new law directs the Department of the Treasury to resume the funding of military pensions for postal employees and abolishes a federally mandated escrow requirement, directing those monies to prefund retiree health benefits. Over the next decade, these changes will free the Postal Service of future legacy costs. We are now on firm financial footing for the future."

Now, after the Postal Service, in my judgment, has been slow to take advantage of the increased flexibilities also provided by the 2006 law, the Postmaster General has once again returned to Congress seeking billions in relief from its liabilities and once again making promises of improvements.

I will, of course, carefully consider the Postmaster General's latest request. I've already proposed stretching out the payment schedule to ease the burden. But, we simply cannot just wish away these liabilities, or pretend that they do not exist.

I also support allowing the Postal Service more flexibility in determining its infrastructure needs. It may well be more convenient for customers, as well as less expensive for the Postal Service, to locate postal services within a grocery store or a pharmacy within some communities.

With respect to 5-day delivery, the Postal Service will have to present a compelling case that reduced delivery will not further depress volume, setting off a death spiral. It's going to take all the members of the postal community, including the postal management, its dedicated employees, members of the mailing community, Congress, and the administration, to contribute to the solution to this financial crisis.

I look forward to today's dialogue and hope it will not be a prelude for a similar discussion 3 years from now.

And I thank the chairman for his indulgence.

Senator DURBIN. Thank you, Senator Collins.

Our first witness is Postmaster General John Potter, who's served since 2001. He is America's 72d Postmaster General, starting as a career postal employee in New York in 1978, and he leads the second-largest civilian workforce in the United States.

Postmaster General Potter.

## SUMMARY STATEMENT OF JOHN E. POTTER

Mr. POTTER. Good afternoon, Chairman Durbin and Ranking Member Collins. I appreciate the opportunity to discuss the serious financial situation of the United States Postal Service.

Today, we stand at a critical juncture. I see both challenges and opportunities ahead for the Postal Service and all of our stakeholders.

In the short term, the Nation's economy has experienced the worst decline in decades, a decline that significantly affected most every sector of the U.S. economy, especially large mailers in the financial and housing sectors, and caused the largest reduction in mail volume history.

The Postal Service faces further reductions in volume due to a tremendous revolution in technology, a revolution that has fueled a global transformation from an Industrial Age to an Information Age, a transformation that was accelerated by the downturn in the economy. This situation has resulted in the diversion of traditional mail to electronic mail and in the rise of online bill paying and other practices. We also face severe challenges, some deriving from mandates imposed over time through regulation and legislation.

As a result, the Postal Service finds itself on a fiscal course that is unsustainable. This situation could not have been avoided, and no one is to blame. No one could have envisioned the economic crisis that has rocked this country and the mail. At just about halfway through fiscal year 2010, we project a loss of approximately \$7 billion. In 2006, we reached a record level of 213 billion pieces of mail. For fiscal year 2010, we expect volume to be about 166 billion pieces. That means one in five pieces of mail has disappeared. As a result, the cost of delivering a piece of mail has risen. Our revenues are simply not keeping up with the cost of supporting a system designed to serve a much larger volume of mail.

The declines in mail volume and revenue have caused us to rethink everything that we're doing. We've managed aggressively and took actions within our control. We took aggressive cost-cutting measures and reduced costs by \$2.8 billion in 2008, by more than \$6 billion in 2009, and this year we plan to take out another \$3.8 billion in costs. Postal employment, which was over 800,000 10 years ago, is now below 600,000, and with the help of our unions and management associations, we did this without layoffs. But, we are rapidly reaching the point of diminishing returns. Only so much can be cut before service suffers. Overcoming our financial challenges will be an enormous undertaking. If we are to succeed, rapid, aggressive, and fundamental changes are absolutely necessary.

Accordingly, we have developed a plan for action—a plan of action for the next decade that is bold, but is also balanced, in that it considers the interest of all stakeholders in the mail. To help develop our plan, we engaged three of the world's most experienced and respected management consulting firms: McKinsey & Co., The Boston Consulting Group, and Accenture, LLC. We asked each firm to independently conduct studies, talk with stakeholders, and produce ideas that would help close the growing gap between our revenues and expenses without undue impact on our customers.

The consultants projected that there will be 150 billion pieces of mail in 2020, and that without significant changes, cumulative losses could exceed \$238 billion by that time.

Drawing from the consultants' recommendations, we crafted a balanced and reasonable plan for a financially sound future. Our solutions are: to restructure the prefunding of retiree health benefit payments; adjust the number of mail delivery days; continue to enhance and expand all alternate access to our products and services; establish a more flexible workforce; apply the consumer price index cap to all market-dominant products, as opposed to just by class; introduce more new products and services, consistent with our mission; establish more clearly defined, appropriate, and agile oversight. Some of these solutions could be implemented quickly, while others require more time to achieve. And no one solution is the answer to reversing our financial condition.

The financial position—picture for the Postal Service is grim, and without changes, will surely worsen. We urgently need your help and legislative change. No matter which decisions are made, it's absolutely critical that they be made in a timely fashion.

The two most urgent changes which we'd like you to consider are a restructuring of the funding payments for retiree health benefits and a change in the frequency of mail delivery.

Regarding the retiree health benefits, the Postal Act of 2006 requires us to prefund 73 percent of all future retiree health benefits, a 75-year liability, in just a 10-year period of time. The aggressive annual prefunding payments average \$5.6 billion, along with separate insurance payments that average \$3.4 billion annually. Although we recognize our obligation to prefund retiree health benefits, in this economic environment, we no longer have the ability to pay at the accelerated pace. The trust fund holding our payments had a balance of more than \$35 billion at the end of 2009, which is sufficient to pay the premiums for all of our roughly 500,000 currently participating retirees, through their expected lifetimes.

Another large financial burden is a statutory requirement for 6-day mail delivery. There is no longer sufficient volume to sustain the cost of the 6-day delivery network. Reducing delivery frequency would substantially reduce our annual costs by approximately \$3 billion. Recent independent surveys show that consumers support this change.

In anticipation of a possible change, we've developed a comprehensive operations plan for 5-day delivery that will address all possible impacts. We will seek an advisory opinion from the Postal Regulatory Commission at the end of this month. Should Congress allow a change, we would provide 6 months' notice, prior to putting a change in place, ensuring a smooth transition for our customers and our employees.

Although changes in retiree health benefits and delivery frequency will go a long way to helping alleviate our financial pressures, they will not be enough to make the Postal Service profitable. We also need an improved model of oversight, and that provides us with the management flexibility to adjust our operations network to reflect the rapid decrease in mail volume, expand our products and services, that we may react more rapidly and aggres-

sively to market-driven environment, base prices for our market-dominant products on demand and cost of each individual offering.

We require and need the help of Congress, because many of the solutions that we just described, those with significant changes, are not within our control. We do not have the unilateral power to change employee wages or benefits, change the legacy costs of retiree health benefits, change delivery frequency, diversify our products and services, change prices, or address Civil Service Retirement System (CSRS) overfunding.

Our plan is a path to a future in which the Postal Service will remain a vital driver of the American economy and an integral part of every American community. Even in an increasingly digital future, the mail, which is projected to total about 150 billion pieces in 2020, will remain a powerful delivery and marketing channel, a preferred means of commercial and personal communication for many purposes, and a complement to e-commerce.

#### PREPARED STATEMENT

Thank you for your support of our ongoing efforts to ensure a solvent and sound Postal Service. I look forward to working with you and other Members of Congress to achieve the passage of legislation that will address our near-term and future challenges, and I would be pleased to respond to any questions that you may have. [The statement follows:]

#### PREPARED STATEMENT OF JOHN E. POTTER

Good afternoon, Chairman Durbin, Ranking Member Collins, and members of the Subcommittee. I appreciate the opportunity to discuss the serious financial situation facing the United States Postal Service and to provide details of our plan for reducing the number of mail delivery days, should a frequency change be approved by Congress. I also would like to share aspects of our new action plan for the next decade titled, "Ensuring a Viable Postal Service for America."

For over 235 years, the Postal Service has provided trusted, affordable universal service to the nation. Our goal is to continue to do so. As the members of this Subcommittee are well aware, the Postal Service is in a dire financial situation. The situation has occurred despite the efforts of Congress through passage of the Postal Accountability and Enhancement Act of 2006 (Postal Act of 2006). Our current financial circumstances have come about in spite of the massive efforts of Postal Service management and employees who have adopted aggressive cost-cutting measures to save over \$1 billion each year since 2001. For 2009 alone, the savings exceeded \$6 billion.

Our financial situation has many causes: a severe national recession that significantly affected the financial and housing sectors, which were important users of the mail; the powerful and rapid evolution of new technologies that have diverted mail to other channels; and the changing use of the mail to communicate and conduct business. This situation could not have been avoided and no one is to blame. No one could have envisioned the economic crisis that has rocked this country.

Further complicating the fiscal health of the Postal Service are limitations under which we operate, including:

- A statutorily mandated requirement to provide 6-day a week delivery.
- Accelerated annual payments to pre-fund a significant portion of our retiree health benefit obligation.
- A restriction to not close Post Offices solely on an economic basis.
- The requirement to submit to binding arbitration to finalize labor contracts.
- Constraints on our ability to restructure and streamline our processing and distribution networks.
- Restrictions on the types of products and services the Postal Service can offer.
- A lack of clarity between the role of the Governors of the Postal Service and the Postal Regulatory Commission (PRC), and an oversight model that adds unnecessary burden and time to decision-making.

Without critically needed fundamental changes, the Postal Service expects significant losses in fiscal year 2010 and in each year into the near future. Our fiscal year 2010 financial plan estimates a revenue decline of roughly \$2 billion and a net loss of approximately \$7 billion. These projections assume there will be no changes this year in the number of mail delivery days per week or in the current retiree health benefits prefunding schedule. If we were not to react and simply move forward with business as usual, the Postal Service is likely to have a cumulative loss of \$238 billion by 2020.

The Postal Service ended fiscal year 2009 with a net loss of \$3.8 billion, despite cost-cutting efforts that yielded more than \$6 billion in cost savings and a \$4 billion reduction in the required 2009 payment to the Postal Service Retiree Health Benefits Fund (PSRHBF) provided by the enactment of Public Law 111–68. We are very grateful to Congress and the Administration for that legislation. However, Public Law 111–68 did not restructure the PSRHBF payments beyond 2009, and the Postal Service continues to be in financial crisis. We urgently need retiree health benefits legislative restructuring from Congress.

In fiscal year 2009, mail volume continued to drop. At 177 billion pieces, volume was down 26 billion pieces or 12.7 percent from the previous year—representing the largest volume decline in Postal Service history. Our volume losses continue against a backdrop of an ever growing mail delivery network that presently has more than 150 million delivery points.

The \$6 billion in savings we successfully achieved during fiscal year 2009 included a reduction of 115 million workhours—the equivalent of 65,000 full-time employees. For fiscal year 2010, our plan is to cut an additional \$3.8 billion of costs, including the elimination of approximately 90 million more workhours. In addition to workhour reductions, our targeted activities will include maximizing operational efficiencies, re-negotiating contracts with major suppliers, continuing the freeze on construction of most new facilities, and using our pricing flexibility to grow new revenue. We have also worked closely with our union representatives to agree on adjustments that reduced costs and increased delivery efficiency. We also will continue to aggressively pursue initiatives to generate new revenue.

Given that the mail volume declines and financial pressures will continue throughout the next decade, the choices for overcoming this serious situation are not easy and there is no single remedy that can return the Postal Service to good financial health. But we do have an action plan for the next decade—one that is both ambitious and aggressive. Through a careful and comprehensive effort, we have identified a set of the most reasonable business choices for the Postal Service and the customers we serve.

To help develop our plan we engaged three of the world’s most experienced and respected management consulting firms: McKinsey & Company, The Boston Consulting Group, and Accenture, LLC. We asked each of these firms to act independently and to conduct studies and have conversations with postal customers, mailers, labor associations, regulators, and mailing industry stakeholders. We wanted them to gather information to help us determine the likely state of the mailing industry and the Postal Service over the next decade. Our expectation was for the consultants to produce ideas that would allow the Postal Service to close the growing gap between our revenues and expenses without undue impact on our stakeholders.

The consultant’s key findings included the following:

- Without fundamental changes, the Postal Service’s losses will continue. By 2020, cumulative losses will exceed \$238 billion.
- Mail volume will decline by roughly 15 percent to about 150 billion pieces in 2020, from a 177 billion pieces in fiscal year 2009.
- The mix of mail received by the Postal Service will change; First-Class Mail will fall sharply and Standard Mail will stay fairly flat. First-Class Mail contributes more toward covering institutional costs, which supports the processing and delivery network.
- The Postal Service could close the gap by as much as \$123 billion, without statutory or regulatory changes, by taking product and service actions, by continuing to improve processes and productivity, by adopting workforce flexibility improvements, and by pursuing purchasing savings. Achieving this level of savings will be extremely challenging.
- Key areas were identified and options provided to close the remaining \$115 billion gap. However, legislative and regulatory changes are needed to achieve them.
- The best way to address the financial challenges and preserve the strength of the Postal Service and the entire mailing industry is through a comprehensive approach that balances the needs of all key stakeholders.



The Postal Service created its plan—Ensuring a Viable Postal Service for America—upon thorough review and consideration of the consultant’s recommendations. The plan provides options to address the challenges we face and is a balanced and reasonable approach to creating a financially sound future. No single option will be able to close the whole \$115 gap; if it came to pass that only one option were used to close the gap, it would likely cause severe disruptions that would have significant adverse impacts. To implement the plan, a number of fundamental changes are necessary, some of which would require legislative changes from Congress. Our solutions are as follows:

- Restructure the Prefunding of Retiree Health Benefits.*—We request that Congress permit these payments to be deferred and shifted to a “pay-as-you-go” system comparable to what is used by the rest of the Federal government and the private sector. This would provide the Postal Service with an average of \$5.6 billion in cash flow per year through 2016. In addition, overpayments to the CSRS pension fund by the Postal Service also need to be resolved.
- Delivery Frequency.*—We request that we be permitted to adjust the number of mail delivery days to better reflect current mail volumes and customer usage.
- Expand Access.*—We will continue to modernize our channels for alternate access by providing services where our customers are. We also will continue to increase and enhance customer access through private sector retail partnerships, kiosks, and improved online offerings. However, the Postal Service needs to be relieved of the statutory prohibition against closing a Post Office for solely economic reasons.
- Workforce.*—We will work during our upcoming collective bargaining negotiations to establish a more flexible workforce that is better positioned to respond to changing needs of our customers and take advantage of the over 300,000 voluntary separations projected to occur over the next decade. We would also ask that Congress pass legislation that requires an arbitrator to take the financial health of the Postal Service into consideration in making an arbitration determination.
- Pricing.*—We request that Congress apply the Consumer Price Index price cap to the entire basket of Market-Dominant products, rather than the current restriction which caps prices for every class at the rate of inflation. This will allow pricing to respond to the demand for each individual product and its costs. In addition, we will use our existing flexibility to pursue an exigent price increase. Assuming other parts of our plan can be implemented, the exigent price increase will be moderate and not occur before 2011.
- Expand Products and Services.*—We ask that Congress permit us to evaluate and introduce more new products and services consistent with our mission. This will allow us to better respond to changing customer needs.
- Oversight.*—We ask that Congress provide us with more clearly defined, appropriate, and agile oversight and more streamlined processes. This will help to achieve the solutions in our action plan.

As you can see, some of these solutions could be implemented relatively quickly within the short-term, while others would require much more time to achieve. No one solution is the answer to reversing our financial condition. And doing nothing—the status quo—is not an option. We believe a balanced approach that provides the Postal Service with the flexibility to respond to market dynamics and the speed to bring products to the market quickly, and that incorporates initiatives focused on cost, service, price, new product, and changes in the law would be the best approach. It is also the one that is most likely to perpetuate a financially sound Postal Service, able to meet the needs of the American people.

We are ready to proceed with our plan. But we need Congress to provide the legislative reform necessary for us to begin our recovery and move forward.

Now, I would like to discuss in greater detail the financial burden the Postal Service faces with respect to retiree health benefits. A provision established in the Postal Act of 2006 requires the Postal Service to prefund 73 percent of all future retiree health benefits—a 75-year liability—in just a 10-year period ending in 2016. This prefunding mandate is not shared by other Federal agencies or private sector companies. The aggressive schedule, a product of budget scoring rules, requires the Postal Service to make annual prefunding payments averaging \$5.6 billion into the PSRHBFF. In addition, the law requires the Postal Service to make separate insurance premium payments for retirees that average \$3.4 billion annually through 2016.

When the prefunding payment schedule was being considered in 2006, the Postal Service envisioned that it would be able to make the payments, while knowing it was a challenging goal. Since then, however, circumstances have changed dramatically. Between 2006 and 2009, mail volume fell by 17 percent and revenue fell by

6 percent. We no longer have the ability to meet this unique statutory requirement to prefund retiree health benefits at the accelerated pace. The enormous obligation costs the Postal Service and its customers—not taxpayers—\$55 billion in prefunding over the 10 year period. The Postal Service recognizes its obligations to fund its retiree health benefits; however, our financial circumstances must be recognized. I would note that the trust fund holding the Postal Service's payments had a balance of more than \$35 billion at the end of fiscal year 2009. Thirty-five billion dollars is sufficient to pay the premiums for all of our roughly 500,000 currently participating retirees through their expected life times.

The Postal Service greatly appreciates the action taken by Congress last year to enact legislation that restructured the payment for 2009. However, for 2010 and beyond, there is no assurance that similar adjustments will be granted. A restructuring of the payment obligation is urgently needed to allow the Postal Service to continue to fulfill its mission now and in the future. Legislative change would also reduce the need for the Postal Service to borrow funds from the U.S. Treasury for the sole purpose of depositing the money into the PSRHB. We recognize there are a number of options, ranging from making no changes to the statutory payments schedule to adopting the Postal Service's Inspector General (IG) recommendation that Congress remedy a Postal Service over-funding of its Civil Service Retirement System obligation. The Postal Service supports the IG's recommendation. However, what the Postal Service needs is a relatively quick decision by Congress on how this issue will be addressed to provide the Postal Service clarity as we consider other options to close the gap.

Next, I would like to provide greater details on our request to change the frequency of the number of mail delivery days each week. The statutorily mandated requirement for 6-day mail delivery has been in existence since 1983 and it places a very large financial burden on the Postal Service. Due to the unprecedented decline in mail volume, there no longer is sufficient volume to sustain the cost of the current 6-day delivery network. The number of pieces of mail per delivery has declined from an average of 5 pieces in 2000 to 4 pieces in 2009, which represents a 20 percent reduction. Assuming a scenario of 5-day delivery and fiscal year 2009 mail volume, the amount of mail per delivery would increase to more than 5 pieces. Revenue per delivery point dropped by 24 percent between 2000 and 2009, because our largest volume declines occurred in profitable First-Class Mail.

Moving to 5-day delivery is absolutely necessary to ensure financial viability, both now and into the future. Reducing the frequency of delivery is the single most effective way for the Postal Service to substantially reduce operational costs—allowing us to reduce annual net costs by approximately \$3 billion. It would greatly assist us with regaining a portion of our financial footing and help to ensure that affordable universal service is maintained nationwide.

Market surveys conducted independently and on behalf of the Postal Service show that customers want to see the Postal Service survive and flourish. Most are willing to accept the elimination of Saturday delivery to reduce the Postal Service's losses. And, most would rather have Saturday delivery eliminated than have stamp prices increased significantly, as would be needed to ensure the Postal Service's financial stability. I would also like to cite the results of a Gallup survey conducted in June of 2009. The survey showed that 66 percent of those polled favored a change to 5-day delivery "as a way to help the Postal Service solve its financial problems" over other alternatives such as increasing postage prices or closing local Post Offices. This result was echoed by studies conducted by Rasmussen in 2009 and 2010.

In anticipation of a possible change, we have conducted extensive stakeholder outreach through dozens of meetings with customers. We identified mailer issues and ensured their consideration in our planning. These exchanges helped us to understand and address the needs of the mailing industry and the public concerning a potential change in the frequency of mail delivery. The Postal Service has developed a comprehensive operations plan for 5-day delivery that addresses all possible impacts from required software programming modifications to workforce adjustments and that addresses issues raised by our customers, to the extent possible. Two major assumptions guided the development of the concept: existing service standards would be maintained and any changes would comply with existing collective bargaining agreements.

Our plan for 5-day delivery, which we will file with the PRC later this month, will present an overview of our 5-day delivery concept and include cost and revenue impacts. As currently envisioned, our concept for 5-day mail delivery service would include the following:

- Residential and business delivery and collections would be discontinued on Saturday.
- Post Offices that are usually open on Saturdays would remain open.

- Post Office Boxes would receive mail delivery on Saturday.
- Express Mail would continue to be delivered 7 days a week, including Saturday and Sunday.
- Remittance mail (bill payments) addressed to Post Office Box and Caller Service customers would be made available to recipients 7 days per week.
- Firm hold outs (mail that a business picks up at the Post Office) would be available for Post Office Box addressed mail Monday through Saturday, nationwide.
- No mail pick-up from blue collection boxes on Saturdays except for dedicated Express Mail collection boxes.
- Acceptance and drop-shipping of destinating bulk mail would continue on Saturday and Sunday.
- Alternate contract locations would remain open 7 days a week on their normal schedules.
- Access to all of our online services via usps.com would continue to be available 24/7.

The Postal Service is fully aware that before a change in the number of delivery days could be adopted, legislative action would be required by Congress to amend the appropriations language that mandates 6-day a week delivery. Should Congress approve a change that grants us the latitude to change the frequency of mail delivery, know that we are committed to implementing an in-depth communications plan for our customers and our employees to make the transition as smooth as possible. Upon approval, we intend to provide our customers with 6 months notice prior to implementing a change which we estimate would be no earlier than mid-2011. The impact on our employees would be minimal and it would occur through attrition, not layoffs.

Another issue for the Postal Service involves limitations that delay or prevent adjustments to our network operations and workforce. Despite these constraints, we are continuing to identify, pursue, and implement various solutions and strategies to make operational activities more efficient and reduce costs to help mitigate the impact of our financial difficulties. Some of the efforts we have adopted to improve efficiency and produce cost savings include consolidating functions, adjusting delivery routes, and restructuring administrative and processing operations—all while continuing to maintain excellent service levels.

The Postal Service needs more flexibility to respond quickly to a changing business environment. We need legislative and regulatory changes to allow us to modernize our network of facilities to meet changes in customer needs and mail volume. We are completing a process of reviewing retail facilities located in larger urban and suburban areas to identify sites where we have a number of facilities in close proximity. This process will help us determine where consolidations are possible so that we may conserve our resources and adapt our customer access to current needs. Related to these efforts, on March 10, 2010, the PRC issued an Advisory Opinion to the Postal Service concerning our Station and Branch Optimization and Consolidation Initiative. In its opinion, the PRC agreed with our approach and made a number of recommendations which we are in the process of reviewing.

Business processes that involve evaluating and relocating or consolidating retail outlets are reasonable and warranted practices used by many companies to streamline their operations and reduce costs. Often when a business is losing money, they resort to selling a portion of their assets, closing locations, or other options such as laying off employees. Here are just a few examples of business actions taken by private companies to improve their financial condition:

- In 2009, Sears closed 62 underperforming stores and initiated an aggressive global digital strategy.
- In November 2009, L.L. Bean announced it would be closing an outlet store in Portland, ME.
- In September 2009, a news item reported that Citigroup was considering shutting or selling some of its 1,001 branches in North America following a \$45 billion Federal bailout. In 2008, Citigroup announced it was cutting its workforce, worldwide, by 14 percent, through the sale of some units or through layoffs.
- In 2008, Starbucks announced it was closing 5 percent—more than 600—of its stores. In 2009, it announced it would close an additional 300 stores.
- In 2009, GM told 1,100 dealerships that it would drop them from its retail network effective October 2010; GM also discontinued the Saturn, Pontiac and Hummer lines of cars.
- A January 2010 news item reported a 10 percent cutback in the number of available airline seats, caused by airlines using smaller planes or reducing the number of flights.

If the Postal Service were provided with the flexibilities used by businesses in the marketplace to streamline their operations and reduce costs, we would become a

more efficient and effective organization. Such a change would also allow us to more quickly adapt to meet the evolving needs, demands, and activities of our customers, now and in the future.

The Postal Service is committed to continuing to fulfill the needs of customers. To help alleviate the concerns of our customers and to better match their changing retail needs, we have been emphasizing the easy and convenient availability of our expanded alternate access points. Today, 30 percent of retail revenue is generated by means other than a Post Office counter. Increasingly, customers are paying for postage stamps and conducting business at thousands of supermarkets, drug stores, and other postal retail partners, and by using our automated kiosks, and our website, usps.com. Our world class web site is available 24/7 to everyone with online access. The Postal Service continues to be committed to fulfilling the needs of customers. Postal customers now can access the services they need using a variety of readily available options including free carrier pick up of outgoing mail at every address. For many customers, these alternatives are simply more convenient and more suited to their lifestyles. Largely as a result of changing customer preferences, Post Offices had 117 million fewer transactions in 2009 than in 2008.

Throughout this difficult period, our employees continue to deliver very high levels of service.

As just one example, during quarter one of fiscal year 2010—and for the fifth straight quarter—our employees attained a score of 96 percent for the on-time delivery of single-piece overnight First-Class Mail. Our dedicated and hard working employees deserve tremendous credit for their successful efforts to provide excellent service under very challenging conditions.

Even so, the financial picture for the Postal Service is grim and without changes the situation will surely worsen. Mail volume has sharply declined from a peak of 213 billion pieces in 2006 to 177 billion pieces in 2009. Despite extraordinary efforts to cut costs, the Postal Service incurred multibillion dollar net losses in the last 3 years. With many fixed operational costs that cannot be eliminated without diminishing service levels, we are running out of ways to cut more costs.

Nonetheless, the Postal Service is continuing to pursue available options to grow revenue during these challenging economic times. We understand that to best serve the American people in 2020 and beyond, we must be able to quickly offer products and services that meet the mailing and shipping needs of our customers. However, at present we must work within the framework provided in the Postal Act of 2006.

One excellent example of how we employed the full range of strategies available to us to successfully compete and generate revenue was our popular Priority Mail Flat Rate Box promotional campaign during 2009. The campaign offered customers a simple, economic way to ship their goods. We used a highly integrated media plan that incorporated TV, direct mail, print and digital advertising and we encouraged our retail clerks, letter carriers, and other employees to actively participate in and support the campaign. By being aggressive, we managed to avoid the double-digit revenue declines in the expedited market. We attribute this success to the pricing freedoms provided to us under the Postal Act of 2006, proven advertising, and outstanding customer service.

In 2009, we also introduced our first Summer Sale. Working with the PRC, we developed the Summer Sale concept that provided a 30 percent price discount on incremental volume of advertising mail available for 3 months during the summer. Over 400 of our largest customers participated in the sale and mailed a significant number of incremental pieces of Standard Mail.

The success of the Summer Sale led to the design and launch of a similar stimulus program for First-Class Mail. This program offered a 20 percent credit on the volume of presorted and automation First-Class Mail cards, letters and flats exceeding an established threshold. We know that mail is a powerful tool to help businesses grow. These sale programs help to ensure our customers know that they matter to us and we want to help them grow their business.

Another positive aspect of the Postal Act of 2006 has provided the Postal Service the ability to offer contract pricing to commercial customers. Prior to this time, everyone paid the same price no matter how much volume they shipped. With contract pricing, we can now compete somewhat more effectively with private carriers on price, which has allowed us to grow our profitable package business. Contract pricing has become a key strategy to grow our commercial business with large and medium sized customers. However, these pricing freedoms fall short of the freedoms our competitors enjoy, since each postal contract must be approved by both by our Board and our regulator, the PRC, in advance of implementation. Streamlining these requirements would enable us to capture more revenue opportunities with sufficient oversight to limit risk.

By 2020, the Postal Service plans to expand products and services across targeted mail and package segments to increase profits by \$2 billion. We will continue to work to increase direct mail use among small and medium-sized businesses, and to increase volumes in both First-Class Mail and advertising mail through targeted promotions. We also will continue to leverage our last-mile network to deliver packages to all households, forming partnerships with others serving the growing e-commerce industry. We also will continue to grow other retail services, such as passports and Post Office Box rentals to increase revenue. However, if we had the authority to offer a wider range of products and services consistent with our business, we could bring in more new revenue.

We urgently need legislative change from Congress. Without it, the Postal Service may have difficulty paying all of the obligations due this year. At present, our financial situation raises significant uncertainty about our ability to generate sufficient cash flows to fund the large cash obligations due in September. In addition, we believe the liquidity of the Postal Service will be seriously threatened beginning in early fiscal year 2011, to the point where it will impact our ability to meet payroll and other financial obligations, as we will come dangerously close to running out of cash.

At present, the two most immediate changes the Postal Service urgently needs from Congress involve legislation that provides a restructuring of the prefunding payments for retiree health benefits and allows the Postal Service to reduce the frequency of mail delivery. Although these two changes will go a long way in helping to alleviate the financial pressures facing the Postal Service, by themselves they will not be enough to make the Postal Service profitable. The Postal Service must address the fact that mail volume is declining, especially First-Class Mail volume which has historically made a substantial contribution to support the overall network. Therefore, we need the flexibility to adjust our operations network to reflect this rapid decrease in today's mail volume, which will continue to decline for sometime into the future. We also need the ability to expand our products and services, and ensure prices for our Market-Dominant products are based on the demand and cost of each individual product. And finally, all of these changes need to be reinforced with more clearly defined and appropriate oversight roles for our many regulators and with more streamlined processes.

We understand that to best serve the American people now and in 2020 and beyond, the Postal Service must be leaner and have the ability to quickly respond to customer mailing needs.

Our action plan is a path to a future in which the Postal Service will remain a vital driver of the American economy and an integral part of every American community, and will continue to deliver the greatest value of any comparable post in the world. If given the flexibility to respond to an evolving marketplace, the Postal Service will continue to be an integral part of the fabric of American life for a long time to come.

The mail and the Postal Service will continue to play a vital role in the personal and commercial lives of all Americans over the next 10 years and beyond. Even in an increasingly digital 2020, the mail will remain a powerful delivery and marketing channel; a preferred means of commercial and personal communication for many purposes; and a complement to e-commerce. In order for this to happen, today's constraints must be removed so that over the next decade the Postal Service can become as dynamic and adaptive as the marketplace and customers we serve.

Thank you for your support of our ongoing efforts to ensure a solvent and sound Postal Service.

I look forward to working with you and other members of Congress to achieve the passage of legislation that will address our near-term and future challenges.

I would be pleased to respond to any questions you may have.

#### POSTAL SERVICE BUSINESS MODEL

Senator DURBIN. Thank you, Mr. Postmaster.

Let me just ask a few questions. First, I'm trying to step back and look at your brand, what the American consumer sees when you say "The U.S. Postal Service." And I'm sure there are a lot of things they can point to. First, the fact that I can take that Mother's Day card, put it in an envelope, put an address on it, and, for 44 cents, expect it to be delivered in a timely fashion to virtually any place in the United States of America. Forty-four cents. That is still an amazing bargain, by any modern standards. Second, that

you do reach every corner of this country. Third, that there's reliable service. Now, occasionally there will be people who will complain, and I've complained about service in parts of my State, but, by and large, our Postal Service is as reliable, if not more reliable, than most any in the world. It is a system which people trust. They develop an ongoing working and social relationship with the men and women who work for the Postal Service.

I know David Lasley, my personal mailman in Springfield. I've known David since he was in college, and he's a friend of our family. He's done little favors for us that go way beyond his responsibilities in the Postal Service. That helps a lot, in terms of explaining who you are and what you mean to so many people.

Your competitors—the Internet—it's going to be up 24/7 no matter what you do. Those e-mails are going to be there Sunday at midnight, delivered back and forth. The people who deliver packages will deliver on Saturdays, and may charge a premium for it, which I think you're suggesting, too, as part of 5-day service.

But, I guess what I'm getting to is, tell me what your business model looks like. When you start reducing your contact with postal customers and consumers, when you decide that you'll only be there 5 days instead of 6, tell me what it looks like to them, in terms of your long-term goal and your economic model, what your brand's going to be as you cut back on the service that's available to the people of this country.

Mr. POTTER. Well, we are very concerned about that, and that's why there were a number of surveys done of the American public to talk about the Postal Service and options that were facing the Postal Service. And, there was, for example, one of the things we surveyed was, we could save money by changing the location of your mailbox from your door or your curb to a street corner. That could save us almost \$3 billion. But, over 90 percent of Americans said, "Absolutely not." That would be considered a major diminution in service. When they were asked about the frequency of delivery and the fact that we were considering going from 6-day to 5-day delivery, every survey I've seen—and there have been many done around the country—people look at that as a favorable option, versus either raising rates or doing something on the order of what I just described to you.

They also recognize that they use and receive less mail. Today, the average address in America gets four pieces of mail a day.

Senator DURBIN. Boy, we're above average.

Mr. POTTER. And it's true. But, I think that oftentimes people look at their own mailbox and don't think about the averages. But, back in 2000, it was five pieces of mail per delivery per day. Today it's four, and we project that in 2020, it will be three.

And the other thing that's interesting is you have the volume of mail that's going to every address. In addition to that, it's the mix of mail. In 2000, more of what was delivered to your home was first class than today; today, there's more advertising. So in 2000 dollars, we delivered \$1.80 to every door, every day in 2000. Today, we're delivering \$1.40 to every door, every day. And in 2020, the projection is, because the mail mix will continue to move in the direction of more advertising mail and less first-class mail, that we will be delivering \$1 to every door every day.

## FIVE-DAY DELIVERY

Now, when you look at that, the question becomes, How can you improve the efficiency of delivery to make up for the fact that the revenue that you're bringing to every door, every day, changes? And working with our unions, we have done that. But, we have not been able to close the entire gap. And that's what's led us to the conclusion that one way to make delivery more efficient is to eliminate that one day of delivery. And again, surveys were done of the American people, and that were positive, not in the sense that everyone would prefer that we not change, but I think people understand that, given their use of the mail and the fact that it's declining, that a change has to occur, and this is one that was acceptable to them.

Senator DURBIN. So, let me ask you about specifics you must have taken into consideration. If there's a 3-day gap in delivery from Friday to Monday—in regular mail delivery—have you considered the impact on the delivery of pharmaceuticals and medicines, perishables, live animals, government checks such as Social Security checks and disability checks, holiday season issues? Some times of year, I know I'm flooded with Christmas cards and other cards that come in, where you're going to have a larger volume, where you're cutting down, for 3 straight days, that delivery. And will public desire for Saturday delivery migrate to post office boxes? And will that mean that you'll have to have a larger volume of those? Are you anticipating that possibility?

Mr. POTTER. Let me just say that we have been doing a lot of research around 6- to 5-day delivery. We've reached out to 40 stakeholder groups, major users of the mail, to determine how the elimination of a 6-day delivery might impact their businesses. The vast majority of people have told us that they will make arrangements.

So, for example, pharmaceuticals: If you have an immediate need for prescription drugs, you go to your local pharmacy and get that filled. You're not relying on the mail. People who are in the mail are the ones who are getting their regular prescriptions on 90-day fulfillment, and so, there's time there for delivery. When it comes to other things, like advertising, magazines, Time has just moved their magazine delivery from Monday to Saturday, because they thought there was an advantage in the marketplace. We've worked with Time magazine, and they have said yes, they can make an accommodation and make a change.

Now, what we've done in this process of reaching out to stakeholders is, we've changed our plan around 6- to 5-day delivery to make sure that we minimize the impact. So, initially, we just said we were going to close—not deliver on Saturday at all, including to P.O. boxes. Well, we heard back from people who receive remittances, and we're going to continue to process the mail and deliver it to P.O. boxes on Saturday.

Senator DURBIN. What do you anticipate would be the increase in volume to post office boxes if you went to 5-day delivery?

Mr. POTTER. We don't have a specific increase, because most of the folks who do receive bill payments in large quantity already have some kind of an arrangement where they have to pick up mail

at a plant before it even gets to the post office, or they pick mail up at a post office, so they can get it early in the morning, as opposed to receiving it later. But what we're embarking on now—we will file, with the Postal Regulatory Commission (PRC), our complete plan for 6- to 5-day delivery. They will review that plan. I know that they are planning to have an outreach to customers, maybe those that we have not reached out to, and they will give us an advisory opinion on our plan. So, there will be a public forum for consideration.

Over the last 6 months, we have modified our original plan to try and accommodate as many of the concerns that were raised by mailers, and I think we've truly narrowed the gap somewhat.

Now I don't want to mislead anyone to think that we could satisfy everybody. There are certain people, for example, newspapers that have 6-day delivery, if we're not delivering on Saturday, we won't be able to accommodate. Some customers were concerned about, you know, would they be able to pick up their packages on Saturday. The post offices that are open Saturday today will be open Saturday in the future.

So, again, where accommodations could be made, they have been made. It wasn't perfect. We do think that we will lose revenue. That is part of the plan that will be submitted, and it will be validated by the Postal Regulatory Commission. So, we do know there will be a revenue impact, but the net impact will be \$3 billion in savings.

Senator DURBIN. So, that represents a little over 4 percent of your annual budget?

Mr. POTTER. Yes.

Senator DURBIN. And I assume you've taken a look at some other options to save money, other than cutting that 6-day service.

Mr. POTTER. Without a doubt. We have built into our plan \$123 billion in savings over the next decade. So, this is—after we cut as aggressively as we could. And part of that plan includes consolidation of our processing facilities. We are concerned that there may be some oversight that would attempt to slow those processes down. But, you know, we know those opportunities exist, and we're ready to go after them.

Senator DURBIN. Let me go into another area here. You mentioned in your opening testimony the impact of changing mail delivery frequency, "The impact on our employees would be minimal, and it would occur through attrition, not layoffs." On what basis do you believe the impact would be minimal? Can you quantify the number of people working for the Postal Service, either as rural letter carriers, city letter carriers, other postal employees—all of the people that make up the Postal Service today—can you quantify the number of jobs that will be lost to save the \$3 billion that you're talking about?

Mr. POTTER. Yes, that's part of the plan that will be submitted. Let me just make sure that I'm 100 percent clear on how we would achieve that. When I talk about employees, I'm talking about postal career employees. And so the way we would address the downsizing as a result of going from 6- to 5-day delivery will be first to eliminate overtime where it exists in the letter carrier craft. Second, it will be to eliminate some noncareer jobs that exist in the



two crafts that are—rural letter carriers, as well as the city letter carriers.

Senator DURBIN. How many jobs would be lost in those areas?

Mr. POTTER. There are 13,000 rural—city letter carrier noncareer employees today—somewhere around 13,300, in that neighborhood. In the rural carrier area, we have some 40,000 people who work 1 day a week. We would have to sit down with the union and work through what role they would play after we move from 6-day to 5-day delivery. And that's the reason we get the advisory opinion from the Postal Regulatory Commission, and after the law changed, there would be a 6-month period where we work through the issues around employment, as well as giving our customers the opportunity to change their operations to accommodate the 6- to 5-day delivery.

Senator DURBIN. But, I want to make sure I understand. When you use the word "minimal," do you have a number in mind, or a percentage in mind, when it comes to any of these employee groups?

Mr. POTTER. In terms of noncareer? In terms of career——

Senator DURBIN. Do both.

Mr. POTTER. In terms of career employees, I don't anticipate we'd have to lay anybody off.

Senator DURBIN. And noncareer?

Mr. POTTER. And noncareer, we would eliminate jobs.

Senator DURBIN. Do you have a number in mind?

Mr. POTTER. Thirteen thousand noncareer jobs for——

Senator DURBIN. Oh, I see what you're saying.

Mr. POTTER [continuing]. City carriers and 45,000 people who work 1 day a week in the rural area.

Senator DURBIN. Okay.

Mr. POTTER. Okay.

Senator DURBIN. Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

Let me pick up on the issue of 5-day delivery. One of the major problems that the Postal Service is facing is a reduction in volume. Would you agree with that?

Mr. POTTER. Yes.

Senator COLLINS. And I believe your testimony indicates that there was a 12-percent reduction in volume last year. Is that accurate?

Mr. POTTER. Yes.

Senator COLLINS. The—what is your estimate for the further volume reduction that would be the result of going to 5-day delivery?

Mr. POTTER. I don't have a specific volume number. I do know that we would lose \$200 million in profit. But, there is a detailed plan that lays that out by class of mail.

Senator COLLINS. It's my understanding that the Postal Regulatory Commission hired some consultants to look at the reduction in revenue which reflected a 2-percent reduction in volume. Are you familiar with those studies?

Mr. POTTER. Yes, I am.

Senator COLLINS. Do you disagree with that estimate?

Mr. POTTER. I think there's a slight difference between the Postal Service estimate and the Postal Regulatory Commission estimate.

Senator COLLINS. There's a considerable difference in the estimates of savings. You have estimated that the Postal Service would save more than \$3 billion annually by going to 5-day delivery. Is that correct?

Mr. POTTER. Yes.

Senator COLLINS. And it's my understanding that in 2008, when the Postal Regulatory Commission looked at this issue, it estimated that savings under the plan would only be \$1.9 billion and that the Postal Regulatory Commission is now estimating savings of approximately \$2 billion. That's a big difference; \$3 billion to \$2 billion. Why is your estimate of savings significantly higher than the PRC's?

Mr. POTTER. Ours is significantly higher because of the estimate for how much of the work that moves from Saturday to either Friday or Monday could be absorbed by operations. Our experience—because we have holidays today—when that occurs, 90 percent of the workload is absorbed. The number that the Postal Regulatory Commission used was somewhere, I believe, in the neighborhood of 67 percent. We based our analysis on our actual experience. We have that experience today with holidays. And so, we are going to present, by the way, that information, as part of our plan, to the Postal Regulatory Commission. We hope that they'll review that information and that I anticipate that the data will prove our assumptions to be correct.

Senator COLLINS. Well, that remains to be seen.

Mr. POTTER. It does.

Senator COLLINS. But, it is—

Mr. POTTER. There's a process, and we'll follow it.

Senator COLLINS. And I appreciate that, but that is a notable difference. You mentioned when you have holidays—one of the problems with eliminating Saturday delivery is we have, what, 10, 11 Monday holidays each year, on which there is no mail delivery. So, we're really talking about, in many months, there being a time where there would be delivery on Thursday and the next delivery would not be until Tuesday. You have talked about reaching out to the stakeholders, and that you were confident that you could mitigate the impacts. I'm confident that you're going to lose volume. And, I think all of us would agree on that. The question is how much, and whether the tradeoff is worth it.

I've talked to weekly newspaper publishers in my State that put their newspapers in the mail on Thursday. It's delivered on Saturday. They're only publishing once a week, and what they tell me is, if the news doesn't get to their customers until Tuesday, in the case of a week where there's a Monday holiday, their customers are not going to subscribe to the paper. It's also a problem for daily newspapers, for obvious reasons. But, I think it's an even bigger problem for the weekly newspapers. And I've had the publishers say to me, they don't know what they're going to do, but they're going to explore alternatives to using the Postal Service. That's a real problem for you.

Similarly, there's a lot of advertising mail that's time-sensitive. The sale is that weekend. Netflix. I've got to believe that Netflix, which relies on daily delivery of its movies, although I know you're talking to them, and I know that they're looking at being able to

stream their movies, is concerned about what this would mean for their business model. And, by the way, isn't the result going to be that a company whose business model relies on daily delivery, like Netflix, is going to start streaming those movies and no use—no longer using the Postal Service at all? Those are the issues that concern me.

So, let me ask you what is the bottom-line question, and this was one that the GAO is asking, as well. And that is, How would eliminating Saturday delivery affect the Postal Service's efforts to grow mail volume and encourage commercial mailers to expand their use of the mail?

Mr. POTTER. Well, first of all, I agree with every question that you had, and I am as concerned as you are about those issues. The local newspaper that mails and, right now, expects to have delivery on Saturday—obviously they have a choice on whether or not they want to deposit a day sooner and get the mail into the home on Friday. One of the things, when we talked last year about this—one thing I didn't realize, when we first had our discussion about this, was how many of the advertisers have actually moved to try and get mail delivered by Friday, because of what you just described. People shop on Saturday. Bill presenters want the bill in people's hands by Friday, so that they can pay over the course of the weekend. So, to be truthful, mail was moving in the direction away from Saturday anyway, because of the fact that they want—folks want the mail in people's hands so they can act on it over the course of the weekend.

Now, one of the things that we have to consider is—and one of the things that we responded—because there was very fair criticism, by yourself and others last year, that we did not present a broad-based plan and that we were focused on one or two things. And that's why we hired the consultants, so that we could come and look at this from a broad-based perspective. And when you look at the future, a lot of the people that—you know, you just described Netflix—their business model is to move away from the mail today anyway.

Senator COLLINS. Well, I can tell you, you're encouraging them to move faster.

Mr. POTTER. They might accelerate that pace. On the other hand, the people who do intend to be with the mail—and this is the key point—we have to keep mail affordable. So, price is very, very important to a lot of the advertisers who use the mail; in particular, cataloguers and others who use us for advertising. Price is extremely important. And when it comes to looking at advertising channels, you know, we're competing with the Internet. We're competing with mobile apps. We're competing with newspapers, television. And so, we have to keep our price competitive.

And so, yes, something will be lost as a result of moving from 6- to 5-day delivery, but I look at what's being protected. What's being protected is the 150 billion pieces of mail that we anticipate being in the system. And it's a balancing act. I'm not going to say that it's not judgmental and it's not without its share of risk, but, given what we have going forward, I think it's a risk we have to take.

Senator COLLINS. Well, when I look at financially troubled businesses—and there are, unfortunately, many in today's economy—

they're trying to grow their business. They're trying to expand their service. They're trying to entice more customers. And it seems like you're choosing a route that goes in the opposite direction.

Go ahead.

Mr. POTTER. Let me assure you, we're very much focused on growth. You know, we've had our first sale ever. We're out aggressively advertising priority mail. And I know that you would like us to do more, and we do intend to do more.

Senator COLLINS. And the summer sale worked; it increased—

Mr. POTTER. Right.

Senator COLLINS [continuing]. Your volume—

Mr. POTTER. And we're going to—

Senator COLLINS [continuing]. Which should tell you something.

Mr. POTTER [continuing]. Which we're going to do again this year. We're also working with the cataloguers who want year-over-year sales, not just specific seasonal sales, and we're going to do that, Senator. But, the real challenge here is a \$7 billion gap.

Senator COLLINS. I know, but let me switch—

Mr. POTTER. Sure.

Senator COLLINS [continuing]. Because I know I don't have much time left.

One of the best sources of cost-saving ideas are from your employees; they're the ones on the front lines. And as you know, the President of the National Association of Postmasters, last year, made a very specific suggestion to you. He said, "I encourage the Postmaster General to negotiate with our unions about cross-craft training. An agreement in this area would augment the skills of individual postal employees, and enable postmasters to more effectively utilize the talents of their employees." He argues that this would save you money, enhance skills. What have you done to implement that proposal?

Mr. POTTER. First of all, I 100 percent agree with him. We have our negotiations with our unions—two of our unions, the Rural Letter Carriers and the American Postal Worker's Union (APWU), begin this summer. The other two unions, the Mail Handler Union and the National Association of Letter Carriers, is the following year. And we intend to work on those issues during the course of those negotiations. They're a nonstarter, outside of negotiations.

#### EMPLOYEE-RELATED COSTS

Senator COLLINS. And I guess that brings me to my final question. The GAO says that 80 percent of the Postal Service's costs are employee related. Is that accurate?

Mr. POTTER. Yes.

Senator COLLINS. The GAO also says that the Postal Service pays a considerably higher percentage of the employees' health insurance and life insurance, compared to the average Federal agency. I realize you're not a Federal agency, but you're participating in the same programs. It's a—the exact same programs. I believe, in the case of health insurance, although it's declining by 1 percent, it's about 83 percent versus 72 percent. In the case of life insurance, the Postal Service, I am told by the GAO, pays 100 percent of the premium, and I believe for Federal employees it's about one-

third of the premium. Are—is your cost structure in line for what it should be, given where the money's being spent?

Mr. POTTER. Well, Senator, thank you for recognizing that we did negotiate, in the last round of negotiations, with all four of our unions. That—on an annual basis each year, the percentage that's paid by the employer would be reduced by 1 percent.

Senator COLLINS. For health insurance.

Mr. POTTER. For health insurance. And that, again, is recognition of the—of what you just described, the fact that we are out of line with what's paid for, in terms of the Federal Government—what they pay for an employee's healthcare. Our unions and management recognized this problem, and we negotiated the change into our contracts. What we agreed was fair was that we'd make this change over time, as opposed to doing it in one move. And so, that's why we went the 1 percent per year.

Now, some people have said we should have been more aggressive and gone the 3 percent a year or 2 percent a year. Well, the fact of the matter is, we got that through collective bargaining. If we didn't reach agreement with the unions—and we were very happy that they worked with us to make that change—that issue would have gone to binding arbitration. And so, the decision wouldn't have been made by either party; it would have been made by an arbitrator.

So, again, we recognize what you just described as a difference between the Federal Government and the Postal Service, and we're working to move in that direction. It will be the subject of negotiations once again this summer and the following summer.

Senator COLLINS. Thank you, Mr. Chairman.

Senator DURBIN. Mr. Postmaster, if I can ask you just a series of quick questions.

Have you considered doing pilot tests on 5-day delivery, to see what the reaction would be, what the impact would be on volume?

Mr. POTTER. We could, but by law, we can't.

Senator DURBIN. Well, we make laws.

Mr. POTTER. Okay. We would be willing to test it.

Senator DURBIN. Okay. I think that might be an interesting thing, to see if some of the surveys and opinion polls actually end up in consumer satisfaction, with the approach on 5-day service, and we'll talk about that possibility.

In 6 months, the next annual statutory installment payment of \$5.5 billion is due to the Postal Service retiree health benefit funds. Are you going to make that payment?

Mr. POTTER. We're going to ask for relief from that payment. Not because we don't have enough cash to pay it this year, but we're very concerned about cash flow in October and November of next year, because of payrolls and because of workers' comp costs. So, we are going to ask for an adjustment. We will have enough cash, if we had to pay it, but we'd run the risk, just similar to last year, of running out of cash in the fall 2010.

#### CIVIL SERVICE OVERPAYMENT

Senator DURBIN. Well, the inspector general says you've overpaid \$75 billion into the Civil Service Retirement System. If this is accu-

rate, could you use this as a source for retiree health benefits and some of the other economic issues you're facing?

Mr. POTTER. Yes, sir.

Senator DURBIN. Are you trying?

Mr. POTTER. Are we trying?

Senator DURBIN. Are you trying to recover the \$75 billion?

Mr. POTTER. Well, back in 2000—now, I can't remember, Senator, whether it was 2003 or 2006—the Senator, in her legislation, provided an opportunity for us to appeal a decision—that was made by the Office of Personnel Management (OPM); and back then, the board of actuaries determined that the conclusion was that we would have \$17 billion in overpayment, rather than the \$92 billion outlined by the inspector general, was the right number. We are working, and have appealed to OPM and the Office of Management and Budget (OMB), to reopen this very matter. If it were to happen, it would literally, I think — we would almost be in a fully funded mode on our Retiree Health Benefit Trust Fund, because the \$75 billion that would—would be, probably, directed there. It would take a lot of pressure off. If that were to happen, we wouldn't have to go to 6- to 5-day delivery.

Senator DURBIN. What's the timeframe for that to be decided?

Mr. POTTER. It's beyond me. There's no schedule.

Senator DURBIN. But, you're saying if the \$75 billion is found, you wouldn't have to cut the frequency of service?

Mr. POTTER. Right.

Senator DURBIN. We might look into that.

Let me ask you about the way you market your products and services. Postal Service has 36,500 retail branches; more than McDonald's, Starbucks, Walgreens, and Wal-Mart combined. An average postal branch sees 600 customers each week; an average grocery store, 20,000 weekly customers. I know that more people are doing things over the Internet, in their homes and at desks, but I wonder if the Postal Service is providing its products and services where people are, and whether or not there's good reason for you to start building your facilities as part of other places that draw much larger crowds of people.

Mr. POTTER. Sir, that's our proposal. Today, we cannot close a post office for economic reasons. So, as other businesses—if you go into a large grocery store, you see banks, coffee shops, other things that are housed along with those grocery stores. That's where we would like to be. We would like people to have access 7 days a week. We would like them to have access 24 hours a day, in some cases. However, we're precluded from closing post offices.

And let me just say this, that when it comes to post offices, part of the 600 folks who walk in on a weekly basis—part of the reason it's only 600 is because over 30 percent of people today buy what they had come to a post office for—they either buy it online or they buy it at grocery stores—

Senator DURBIN. Thirty percent?

Mr. POTTER [continuing]. Over 50,000 grocery stores sell stamps today. And our anticipation is, in the next decade, that that 30 percent will probably move to 60 percent, because we're working very hard to improve our Internet, our Web site.

We have put up—just to show the interest in the Postal Service—we created a postal mobile app, and within 3 weeks, it went to the top of the charts, in terms of the most-used mobile app. That was to look up locations of post offices, ZIP Codes, and the like. So, we know there's a big interest in the Postal Service. We'd like to be where people are; online or in locations where they're already conducting their business.

Senator DURBIN. Taking the downtown Chicago Post Office out of this conversation—the old one—do you have excess property and real estate that is in a valuable location that you could consider selling to try to come up with some of the revenue the Postal Service needs?

Mr. POTTER. Yes, and we are aggressively pursuing that. In some cases, what we're doing—for example, in San Francisco, we're consolidating delivery units and selling our buildings and moving our retail into a location in a very proximate area to where our current location is. We have done that, historically. It's been a slow-moving process, for a whole host of reasons. As you know, in big cities, transactions tend to take a lot longer, even though they're much more lucrative—but, they do take a long time. We worked very close on that Chicago Main Post Office, as you know, but if opportunities—

Senator DURBIN. You offered me—

Mr. POTTER [continuing]. Exist, we do pursue them.

Senator DURBIN. I don't know if it was in jest, but you offered me the Chicago Main Post Office for a dollar once. I don't know—

Mr. POTTER. Only because it was costing us \$14 million a year to maintain it, even though we no longer had a presence there.

Senator DURBIN. Thank you.

Senator COLLINS.

Senator COLLINS. Thank you, Mr. Chairman.

Mr. Chairman, I want to follow up on the issue you raised about the inspector general's report, which indicates an overfunding to the Civil Service Retirement System, because it is such an important issue.

Mr. Potter, it's my understanding that the OPM and the GAO both strenuously disagree with the inspector general's conclusion. Is there a change that's happened since those disagreements?

Mr. POTTER. To the best of my knowledge, no.

Senator COLLINS. Okay. So, the administration has stuck to its belief that there is not the kind of overpayment that the inspector general has found.

Mr. POTTER. To the best of my knowledge, no. But, I would prefer that they respond—

Senator COLLINS. Right.

Mr. POTTER [continuing]. Obviously. But—

Senator COLLINS. I just wanted to bring that—

Mr. POTTER. Right.

Senator COLLINS [continuing]. To the chairman's—

Mr. POTTER. Right.

Senator COLLINS [continuing]. Attention.

## RETIREE HEALTH BENEFITS

I personally don't know who's right. This is a case where different actuaries have come to different conclusions. But, I do know that OPM considers itself to be expert in how you fund retirement programs.

On that point, and switching to your retiree healthcare benefits, you talk about that the money that's currently in the fund—the \$35 billion—is sufficient to pay the premiums for all of our roughly 500,000 currently participating retirees, through their expected lifetimes. Doesn't that ignore the fact that you're going to have a huge wave of retirees coming? I—the reason I know this is the chairman and I fly back and forth, and people sit next to us on the plane and take advantage of that opportunity to educate us on issues.

And I sat next to the postal district manager, who I believe told me that something like one-half of your workforce is eligible to retire in the next decade.

Mr. POTTER. Right. No, what that was meant to say—that there's a sizable amount of money there. And so, when you're looking at funding obligations going forward, there's a thing, I learned about in the last couple years, called "normal cost." In fact, I was educated by OPM on this, which is—basically, you begin to pay into the Retiree Health Benefit Trust Fund, based on how many employees you have, against what their anticipated cost is in the future, versus—as we both know, the payment schedule that we're on now, was more linked to a scoring issue than the normalization. And so, that's what that was meant to imply, that there was a way of looking at this a little differently.

Senator COLLINS. I just don't want to lead what—leave what would be a misleading—

Mr. POTTER. Oh, no.

Senator COLLINS [continuing]. Impression. The fact is, you've got billions of dollars of future liabilities that they—

Mr. POTTER. There's still a \$50 billion gap. I'm not trying to—

Senator COLLINS. That's correct—

Mr. POTTER. Okay. Yes.

Senator COLLINS [continuing]. And I think that's a really—

Mr. POTTER. Okay.

Senator COLLINS [continuing]. Important point.

Mr. POTTER. I didn't mean to mislead anyone, but just to say that there is a sizable amount of money there.

Senator COLLINS. Right.

Mr. POTTER. Because, when we started on this process, years ago, the concern was that, at some point in time, the Postal Service might not be an ongoing concern, and the liability would fall back on the Federal Government.

Senator COLLINS. Correct.

Mr. POTTER. When you look at normalization, what you look at—in addition to just how many employees you have, you look at what would happen if the business were to go under. And the fact is, if it were, not all of our employees would be eligible for retiree health benefits. Only those who are eligible to retire could do that. And



so, you know, again, it was just because I've become educated, in the last couple years, on other approaches that could be taken.

Senator COLLINS. I just wanted to make sure that was very clear for the——

Mr. POTTER. Right.

Senator COLLINS [continuing]. Record. I would also note that, back in 2006, when Senator Carper and I authored our bill, we initially had a 40-year amortization schedule. And it was only in the final negotiations with OMB where the amortization schedule was truncated considerably.

What I don't want to see is another year like this past year—and I voted to allow you to do it—where the payment is significantly reduced. That is not a good situation. That is just wishing away liabilities. But, I do think that we should stretch out and smooth out the amortization schedule for this unfunded liability.

I'm tempted to ask whether you'd agree with that, but I'm not sure what you would say.

Mr. POTTER. No——

Senator COLLINS. I'll ask anyway.

Mr. POTTER. First of all, let me assure you that we're not walking away from the obligation for retiree health benefits for our employees. I hope to get that benefit in the future. So, I—we want to make sure that that's fully funded. I would agree that the timing, in terms of the pace at which you pay for that, obviously the current situation has to be taken into consideration. The amortization over a longer period of time does give us welcome relief. And we all know that, although we were in agreement about a 40-year amortization back in 2006, that option was taken off the table——

Senator COLLINS. Correct.

Mr. POTTER [continuing]. Not by either party, but by a third party.

Senator COLLINS. Right.

Mr. Chairman, just one final comment for this witness, and that is, whatever plan we adopt, we have to make sure that it truly positions the Postal Service for the future and that we're not back here, 3 years from now, once again facing billions of dollars in annual losses, huge unfunded liabilities, declining volume, and being in no different a place. And that means that there needs to be a new business model and some very tough decisions made.

I vowed, in 2006, that I would never do a major postal bill again, because it was so difficult to get all of the stakeholders. And we thought that we had put the Postal Service on track for viability. And that was your testimony. I read part of it at the time. GAO removed you from the high-risk list. And I just don't want to see this movie again.

Thank you, Mr. Chairman.

Senator DURBIN. I'd say to my colleague that I agree with her completely.

Mr. POTTER. Well, I would, too.

So, I'll second what she just said. But, the only thing——

Senator DURBIN. But, I'd just add——

Mr. POTTER. The only thing we didn't anticipate was this recession——

Senator DURBIN. I was going to say——

Mr. POTTER [continuing]. Of the magnitude that we had, and a tipping point that it affected—how it affected the mail.

Senator DURBIN. As a precautionary note, I don't think any of us could have predicted the depth and seriousness of the current recession on every aspect of our lives. And, second, you are in a field that is being affected by this galloping change in technology and the change in habits by the American people. Who would have guessed, 10 years ago, American newspapers would be flat on their back at this point and struggling to survive. And it's a reality. And so, there's this change in technology. You are right in the middle of this competition, and I understand that part. But, we're going to try to make some decisions, or help you make some decisions, which will give us a breather—maybe 4 years before we see you again.

Mr. POTTER. Let's hope it's a little longer than that.

Senator DURBIN. Then maybe even a little longer.

Mr. Potter, very much for your testimony.

Mr. POTTER. Thank you.

Senator DURBIN. I'm going to welcome the second panel to take their place at the table.

#### ADDITIONAL SUBMITTED STATEMENTS

And while they do, I note that the subcommittee has received prepared statements from a number of postal labor organizations: the National Association of Letter Carriers; the National Rural Letter Carriers Association; the National Postal Mail Handlers Union; the American Postal Workers Union; the National Association of Postmasters of the United States; and the National Association of Postal Supervisors. And, without objection, their statements will be made a part of this record and reviewed carefully by us and our staff.

[The statements follow:]

#### PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF LETTER CARRIERS

Thank you, Chairman Durbin, for holding this important hearing on the financial situation facing the United States Postal Service. On behalf of the 295,000 members of the National Association of Letter Carriers, I submit this statement for the subcommittee's consideration.

##### *Overview*

There is no doubt that the Postal Service faces the worst crisis since the Great Depression of the 1930s. The collapse of the housing bubble and the financial meltdown of 2008–2009 affected the most mail-intensive sectors of the economy. This occurred at a time when the impact of electronic diversion of traditional letter mail caused mail volume to stagnate after peaking in 2006. Yet the deep recession and the negative impact of the Internet on postal volumes are not the most important causes of the Postal Service's large deficits in recent years. Unfortunately, the main driver of the USPS's current financial distress stems from a policy decision, albeit well-intentioned, adopted by the U.S. Congress in 2006 to require the Postal Service to massively prefund decades of future retiree health benefit obligations in just 10 years. This requirement has cost, and will continue to cost, the Postal Service some \$5.6 billion per year until the year 2016.

That's right. This immediate crisis was initiated in 2006 when Congress, in cooperation with the Bush administration, included the prefunding requirement in the Postal Accountability and Enhancement Act (PAEA). What appeared to be affordable in 2006 is clearly unaffordable today. Over the past 3 years, as the economy slipped into the worst recession in 80 years, the Postal Service has had to pony up \$12.4 billion to prefund future retiree health benefits—on top of some \$6 billion for current retiree health benefits.

No other agency—including the United States Congress—or private company faces such a legal obligation to prefund. Indeed, such prefunding is not even required by the Financial Accounting Standards Board (FASB), which establishes accounting rules for both private and public organizations. And as an annual survey conducted by Watson Wyatt found in 2009, only about a third of Fortune 1000 companies voluntarily prefund retiree health obligations at all—and those that do have set aside much less than the Postal Service has already.<sup>1</sup>

What makes this situation worse is that the size of the prefunding payments is grossly inflated due to actuarial methods adopted by the Office of Personnel Management (OPM). These methods, which have been exposed by a series of reports by the Office of Inspector General of the USPS, not only shortchanged the Postal Service Retiree Health Benefits Fund (PSRHBFF) by tens of billions of dollars when it was established in 2007, but also greatly exaggerated the USPS's future liability for retiree health benefits—which prompted the Congress to establish a completely unrealistic schedule of prefunding payments in the PAEA.

The USPS has responded with tremendous resilience to the challenges of the recession, which began in 2006 for our industry when the credit crunch hit. And my union, the NALC, has been a responsible and reliable partner in helping it react to the steep decline in mail volume. Working together at the bargaining table, we strove to negotiate flexible and fair means for adjusting all 160,000 city carrier routes to ensure 8-hour assignments, boosting efficiency and saving hundreds of millions of dollars. In fact, we adjusted every city carrier route in the country not once, not twice, but three times over the past 18 months. Using the traditional method of route evaluation would have taken more than 5 years to adjust every route.

In fact, the Postal Service has been so successful in cutting costs to align work hours with recession-level volumes that it would have earned a net surplus of \$1.6 billion over the past 4 years in the absence of the onerous prefunding burden. This burden is directly responsible for the dramatic rise in the Postal Service's outstanding debt. See the chart below.

#### PREFUNDING PAYMENTS, NET INCOME AND DEBT OF THE U.S. POSTAL SERVICE

[In billions of dollars]

Year	Payments to the Postal Service Retiree Health Benefits Fund	Net Income	Debt Increase
2006 .....	.....	0.9	2.1
2007 .....	5.4	– 5.1	2.1
2008 .....	5.6	– 2.8	3.0
2009 .....	1.4	– 3.8	3.0
Totals .....	12.4	– 10.8	10.2

Notes: (1) A modified version of H.R. 22 was enacted in 2009, slashing the prepayment from \$5.4 to \$1.4 billion; (2) In 2005 the Postal Service had no debt at all.

#### *Congress Should Fix the Prefunding Policy First*

Today your subcommittee is going to hear a lot about 10 and 20-year predictions about future mail volume and the mega-sized postal deficits that will occur if we do nothing. You will no doubt also be asked to embrace draconian suggestions developed by the Postal Service's consultants and perhaps other witnesses. The 200,000 men and women who deliver the mail on city carrier routes today urge you exercise great caution and to stop and consider the real cause of the immediate crisis: The unworkable and unreasonable pre-funding policy adopted in 2006.

Congress should correct the retiree health prefunding policy first—it is the single most effective step you can take to stabilize the Postal Service's finances. We urge you to fully implement the recommendations contained in the two OIG reports on this issue.<sup>2</sup> (See the attached fact sheets prepared by the NALC's Department of

<sup>1</sup> See Figures 29 and 30 in "Accounting for Pensions and other Postretirement Benefits 2009, Reporting Under FAS 87 and FAS 106 Among the Fortune 1000, A Watson Wyatt Survey Report," pages 21–22.

<sup>2</sup> USPS Office of Inspector General study: "The Postal Service's Share of CSRS Pension Responsibility," January 22, 2010, see [http://www.uspsoig.gov/foia\\_files/RARC-WP-10-001.pdf](http://www.uspsoig.gov/foia_files/RARC-WP-10-001.pdf); and USPS Office of Inspector General report: "Estimates of Postal Service Liability for Retiree Health Benefits (Report Number ESS-MA-09-001(R)), July 22, 2009, see [http://www.uspsoig.gov/foia\\_files/ESS-MA-09-001R.pdf](http://www.uspsoig.gov/foia_files/ESS-MA-09-001R.pdf).

Legislative and Political Affairs.) While we appreciate the efforts undertaken last year by the Obama administration and other Senate leaders to offer limited relief from the pre-funding burden in S. 1507, that bill does not go far enough and its adoption by the Senate Committee on Homeland Security and Governmental Affairs was marred by an antiunion amendment that would permanently and unfairly tilt the interest arbitration process in favor of postal management. NALC urges the Senate to start over with a fresh approach suggested by the USPS OIG.

#### *Congress Should Retain 6-Day Delivery*

The Postal Service is too important to the country to make rash decisions in an environment of financial distress. NALC believes it would be unwise to downsize to meet recessionary levels of demand before we know how soon and how well the economy and the postal market will recover. Specifically, we believe that eliminating Saturday collection and delivery services would be penny-wise and pound-foolish. No business has ever restored itself to health by offering slower service and turning customers away—too many businesses (including mail order merchants, online pharmacies, DVD and game rental companies and newsmagazines) rely on 6-day delivery to simply leave them in the lurch. Rather than saving the Postal Service money, 5-day delivery could worsen its bottom line over time as a result of further volume and revenue losses. And it would needlessly destroy 50,000 good jobs at a time of extremely high unemployment. (See the attached fact sheet on Saturday delivery prepared by the NALC's Department of Legislative and Political Affairs.)

Eliminating Saturday collections and delivery should be a last resort policy, not a first resort policy. It certainly should not be considered until we see the impact on demand for postal services when the economy recovers—as well as the results of the next round of postal collective bargaining. Nor should it be considered before Congress corrects the deeply flawed prefunding policy adopted in 2006. In any event, the Postal Service has not yet presented its 5-day collection and delivery proposal to the PRC for review, as mandated by law. Congress and this subcommittee should await the results of that review and conduct extensive hearings to ensure it understands the full implications of eliminating Saturday delivery before debating changes to the annual appropriation legislation that mandates 6-day services. The data and assumptions in the Postal Service's plan yet to be scrutinized and special attention must be given to the impact of service cutbacks on tens of millions of small businesses, including those in rural communities and economically distressed neighborhoods.

#### *Conclusion*

We know that prefunding reform may not be enough to secure the long-term viability of the USPS. We know the Postal Service's business model deserves a serious and comprehensive debate. However, NALC and the other postal unions are prepared to deal with the lingering effects of the recession and the negative impact of the Internet at the negotiating table, just as we have adapted to varying business conditions for some 40 years of successful collective bargaining. And we believe that it is only in the context of financial stability that a serious and careful legislative debate can take place. That will require us to do our part at the bargaining table and for Congress to do its part on retiree health prefunding reform.

NALC is committed to preserving a strong and viable Postal Service that can meet the evolving needs of the American people and American businesses. We look forward to working with this subcommittee and the entire United States Senate to find a sensible and realistic way forward. Thank you for inviting us to submit this statement.

#### NALC FACT SHEET—STRENGTHENING THE POSTAL SERVICE: REFORM ITS RETIREE HEALTH PRE-FUNDING SCHEDULE

The Postal Service is facing a financial crisis in the midst of the worst recession in 80 years. Congress spent much of 2009 debating short-term financial relief for USPS in the form of reduced prefunding payments for future retiree health benefits. On September 30, 2009, Congress adopted a measure which reduced the level of USPS prefunding in 2009 from \$5.4 billion to \$1.4 billion and reduced the Postal Service's operating loss from \$7.7 billion to \$3.7 billion. While it was helpful last year, this type of last-minute relief will not adequately address the larger problems caused by the prefunding requirements. In 2010, Congress must reform the prefunding schedule adopted by Public Law 109-435 to provide for long-term financial stability. The current schedule is unaffordable and unfair:

—The USPS is the only enterprise in the country required by law to prefund retiree health benefits while most Fortune 1000 companies (two-thirds) don't prefund at all.

- The annual payments required are extremely onerous, requiring the USPS to effectively prefund 80 percent of a 75-year liability in just 10 years, and are based on flawed calculations by the Office of Personnel Management (OPM).
- The actuarial methods used to determine the retiree health benefit liability are deeply flawed and inequitably overstate the Postal Service's liability. Congress should mandate a new prefunding schedule based on fair and accurate actuarial calculations.

#### *Background on Prefunding*

The Postal Accountability and Enhancement Act of 2006 established the Postal Service Retirees Health Benefit Fund (PSRHBF) by calling on OPM to calculate the “postal” surplus in the Civil Service Retirement System and to transfer it to the PSRHBF in 2007. The law also dictated 10 annual payments into the Fund averaging \$5.5 billion each between 2007 and 2016, also based on OPM calculations.

In establishing the Fund and setting the payment schedule, Congress sought to minimize the “budget score” of the legislation and relied on the OPM estimates of the value of the CSRS surplus and the cost of future retiree health benefit liabilities. A study conducted by the USPS Office of Inspector General shows that OPM underestimated the size of the postal CSRS pension surplus by roughly \$75 billion.<sup>1</sup> Furthermore, the Postal Regulatory Commission has found that OPM's healthcare inflation assumptions are overstated.<sup>2</sup> As a result of these calculations, the Postal Service has been saddled with an unaffordable prefunding schedule that threatens its future viability.

#### *A Fair Calculation of the Postal CSRS Surplus*

In 2003, OPM made the initial determination of the postal pension surplus in order to implement a CSRS funding reform law (Public Law 108–18). This process, which was repeated in 2007 under the PAEA (with the Treasury taking responsibility for CSRS military benefits), required the OPM to allocate the cost of CSRS benefits earned by postal employees between the Treasury (taxpayers) and the Postal Service (ratepayers) for all workers who performed service before and after July 1, 1971. That was the day the Post Office Department (POD) was reorganized and became the U.S. Postal Service, an independent agency of the government separate from other cabinet agencies. Unfortunately, OPM shifted much of the cost of CSRS benefits earned by POD employees to the Postal Service by making the USPS responsible for any and all increases in the value of benefits accrued for POD service due to wage increases after July 1, 1971. Any fair calculation of benefits accrued before postal reorganization in 1971 should have included some recognition of normal wage increases in the future, since CSRS benefits are based on end-of-career earnings. Instead, OPM froze the value of accrued benefits at July 1, 1971, pay levels—effectively shifting much of the cost of pre-reorganization service to the Postal Service. The OPM also failed to recognize that the CSRS benefit formula is backloaded and unfairly assigned the low-cost early years to the POD and the high cost later years to the Postal Service.

By overstating the Postal Service's liability for CSRS benefits, the OPM understated the value of the postal surplus in the CSRS by as much as \$75 billion, according to a review by the OIG. As a result, the Postal Service was short-changed when the surplus was transferred to the PSRHBF in 2007. Under OPM's method, the fund was credited \$17 billion. Using the more fair and accurate method advanced by the OIG, however, the postal surplus may have exceeded \$80 billion, more than enough to cover all of the Postal Service's future retiree health liability.

#### *Adjusting the OPM's Health Inflation Rate*

The OPM has also inflated the cost of the Postal Service's prefunding payments by assuming an extremely high rate of long-term healthcare inflation—some 7 percent annually for 75 years. Most Fortune 1000 companies use a 5 percent long-term rate, while Medicare and Medicaid assume costs will rise by 6.25 percent annually. Both the Inspector General and the PRC have concluded that more accurate inflation assumptions could reduce or eliminate the Postal Service's PAEA-required payments. The OIG's report concluded that “[t]he Postal Service could pay an average of \$4 billion less each year from fiscal years 2009–2016 to prefund its retiree health benefits and still achieve the same level of prefunding [80 percent] anticipated under OPM assumptions.”

<sup>1</sup>Postal OIG study, “The Postal Service's Share of CSRS Pension Responsibility”. Jan. 20, 2010. [http://www.uspsoid.gov/foia\\_files/RARC-WP-10-001.pdf](http://www.uspsoid.gov/foia_files/RARC-WP-10-001.pdf).

<sup>2</sup>Postal Regulatory Commission study, July 30, 2009. [http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study\\_109.pdf](http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study_109.pdf).

The current long-term cost assumption is inaccurate and places an unfair burden on the Postal Service, its employees and ratepayers. It must be adjusted to more accurately reflect the reality of the Postal Service's future obligations.

*Eliminating Saturday Delivery Not the Answer*

Correcting OPM's actuarial calculations involving the CSRS postal surplus and the long-term cost inflation rate would significantly reduce the \$5.5 billion prefunding payments mandated by the Postal Accountability and Enhancement Act of 2006. It would also strengthen the financial stability and future viability of the Postal Service.

Adopting a more accurate and affordable prefunding schedule should be given the highest priority in any postal reform legislation considered during the remainder of the 111th Congress. This step should certainly be taken before Congress considers more radical measures such as the elimination of Saturday delivery.

NALC FACT SHEET—SAVE THE POSTAL SERVICE: DEMAND FAIRNESS IN USPS PENSION AND RETIREE HEALTH FUNDING

As the economy struggles to recover from the worst recession in 80 years, the Postal Service continues to face a financial crisis. The loss of revenue resulting from declining mail volume is compounded by a provision in the 2006 postal reform that requires the Postal Service to massively prefund its future retiree health benefits at a cost of \$5.6 billion annually. The requirement has resulted in mounting losses, rising debt and destructive job and service cuts.

The unprecedented prefunding provision—no other agency or private enterprise is required to prefund by law or by widely accepted accounting standards—was made worse by how it was implemented by the Office of Personnel Management. The OPM's calculations to determine the initial balance in the Postal Service Retiree Health Benefit Fund (PSRHBF) and the size of the Postal Service's future retiree health liability were deeply flawed. Studies conducted by the Office of the Inspector General of the Postal Service (OIG)<sup>1</sup> and the Postal Regulatory Commission<sup>2</sup> have shown that the "postal surplus" in the CSRS pension fund, which was transferred to the retiree health fund in 2007, was grossly undervalued by OPM. As a result, USPS was shortchanged by as much as \$75 billion when the PSRHBF was created.

Returning these surplus funds to the postal retiree health fund would greatly alleviate the Postal Service's financial stress. In fact, doing so would fully fund the Postal Service's 75-year liability for future retiree health benefits and the current prefunding requirements would be unnecessary.

In 2010, in order to rectify the unfair, inequitable and financially destructive impact of the prefunding policies resulting from the OPM's methods, Congress must:

- Demand that OPM recalculate the postal pension surplus using actuarial methods that are fair to the Postal Service and its ratepayers, as proposed by the OIG;
- Require that OPM transfer the corrected surplus fund to the Postal Service Retiree Health Benefits Fund; and
- Repeal the prefunding requirement found in Section 8909a of Public Law 109–435.

The long-term viability of the USPS will require all stakeholders to adapt and innovate and may require Congress to adopt further legislative changes to allow the Postal Service to provide new services and to generate new revenue. But reform of the prefunding provisions cannot wait until a consensus forms on a new business model. Congress must act this year.

NALC FACT SHEET—ELIMINATING SATURDAY DELIVERY IS NOT THE ANSWER

The U.S. Postal Service faces the worst crisis in its history. It expects to lose \$6–\$7 billion in 2009. Although the collapse of the housing and financial sectors in late 2008 is responsible for the largest decline in mail volume since the Great Depression in the 1930s, the main cause of the financial crisis is the decision advanced by the Bush administration in the postal reform law of 2006 to require the USPS to prefund its future retiree health benefits, a 75-year liability, in just 10 years. The cost of this unaffordable prefunding payment, \$5.4 billion in 2009, accounts for most of the projected loss this year. The annual cost will rise to \$5.8 billion by 2016.

<sup>1</sup> USPS Office of Inspector General report: Estimates of Postal Service Liability for Retiree Health Benefits (Report Number ESS–MA–09–001(R)). See [http://www.uspsaig.gov/foia\\_files/ESS-MA-09-001R.pdf](http://www.uspsaig.gov/foia_files/ESS-MA-09-001R.pdf).

<sup>2</sup> Postal Regulatory Commission Review of Retiree Health Benefit Fund Liability as Calculated by the Office of Personnel Management and the U.S. Postal Service Office of Inspector General, July 30, 2009. See [www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study\\_109.pdf](http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study_109.pdf).

While the NALC is working with postal management to address the crisis with the Interim Route Adjustment Process, Congress must take action to relieve this prefunding burden to preserve affordable, universal service. See the NALC Fact Sheets on H.R. 22 and S. 1507.

*Postal management's proposal to deal with the crisis—eliminating Saturday mail delivery—is not a sensible solution to the USPS's financial crisis*

The Postal Service estimates that by eliminating one-sixth of its delivery service, it can cut operating expenses by \$3.4 billion or 4.6 percent—not the 16.6 percent you might expect. The model it used to estimate potential savings is based on many unproven assumptions and did not specifically study the elimination of Saturday delivery, the day most Americans are home to receive packages.

To date, no study has been conducted to estimate how a reduction in delivery days would affect mail volume and delivery costs in the remaining 5 days or how different types of mailers would be affected.

A study conducted on behalf of the Postal Regulatory Commission suggests that total cost savings by eliminating one of delivery could be as low as \$1.9 billion or just 2.5 percent of total postal expenses.

*The Postal Service is rushing to judgment*

In letters to employee groups dated June 11, 2009, USPS management requested input on a study of the feasibility of weekday-only delivery with replies due back by June 19, 2009. In July it informed the unions that it planned to finish its review in 3 weeks. The USPS appeared to be recycling an old IBM study it used for the PRC Universal Service investigation. A more thoughtful and serious study is needed.

The proposed reduction in delivery services would be the most radical change to postal operations in the 230-plus year history of the U.S. Mail. No such policy decision should be made after just a few weeks consideration, much less without a comprehensive study of its effects.

*Six-day delivery makes the Postal Service unique*

One of the defining characteristics of the U.S. Postal Service is its policy of nationwide uniform pricing with 6-day delivery. Competitors charge don't deliver or charge high premiums for Saturday delivery while the USPS provides affordable universal as mandated by the Constitution.

*American businesses value 6-day delivery*

Business in the United States is conducted 6 days—and in many sectors 7 days—per week. Small and large businesses alike, from individual entrepreneurs to large-scale financial firms, rely on the delivery of the mail 6 days per week to operate successfully. Saturday delivery is especially important to growing companies like eBay, Netflix and Caremark, and has long been vital for news magazines. The elimination of Saturday delivery will make the USPS less valuable to business and accelerate electronic substitution.

*American citizens value Saturday delivery too*

Billions of prescriptions are delivered through the mail each year—a 2-day delay in their delivery would seriously inconvenience senior citizens and others. Delayed delivery of payments, subscriptions and food products would adversely affect millions of households.

*Rural communities would be disproportionately affected*

Americans living in rural areas where the Postal Service's competitors do not deliver or where broadband connectivity is not available rely especially on 6-day USPS delivery and would be adversely affected by any service cuts. Farmers rely on the delivery of seeds and other products through the mail and citizens who live far from retail outlets need the USPS for mail-order delivery.

*Broad coalition of stakeholders favors 6-day delivery*

According to the PRC's 2008 study of universal service, parcel shippers, direct marketer, magazine publishers and other major mailers along with consumer advocacy groups and the seven postal employee groups agreed: The elimination of 6-day delivery would hurt business and consumer interests while costing thousands of jobs.

## PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

Chairman Durbin, Ranking Member Collins and Members of the Subcommittee: Thank you for holding this hearing on the financial crisis afflicting the United States Postal Service and the current proposal to eliminate 6-day mail delivery to American households and businesses. The current mandate upon the Postal Service to deliver 6-days-a-week, as you know, is contained in the annual appropriation law covering the Postal Service.

The National Association of Postal Supervisors, which represents the interests of the 33,000 supervisors, managers and postmasters who are responsible for mail operations throughout the Postal Service, wants to express our deep concern about the merit of introducing 5-day delivery.

I should note at the outset that our association represents Postal Service supervisors who are doing their share to help the Postal Service modernize and change. We support changes in the law, infrastructure and operations of the Postal Service that make sense and will modernize and sustain Postal Service operations, products and services.

However, we believe that the elimination of 6-day delivery will be devastatingly counter-productive to the Postal Service and its customers. It will pose problems for thousands of business mailers who depend upon Saturday delivery, who likely will adopt alternative delivery measures that only accelerate the migration of business mail to the Internet. Elimination of Saturday delivery will be harmful to the millions of household customers of the Postal Service, including the elderly who rely upon the timely receipt of their Social Security checks and the sick who rely upon the timely receipt of medicine and other medical products.

More fundamentally, elimination of 6-day delivery will damage the Postal Service brand, the competitive position of the Postal Service and cyclically draw down volume faster. Business competitors will fill the vacuum and offer Saturday delivery at premium prices, thereby gaining overall market share against the Postal Service.

Congress should refrain from changing current law and granting approval to 5-day delivery, at least for the time being. Five-day delivery should be the last resort, not the first. Better options are available now to preserve the health and vitality of the nation's postal system.

Foremost among them is Congressional passage of legislation that mandates the re-calculation of the Postal Service's pension obligation to the Civil Service Retirement System pension fund, using more equitable, reasonable and financially-stable calculation methods and assumptions; and credits to the Postal Service \$75 billion for an overcharge in its payments into the CSRS pension fund and transfers that credit to satisfy the Postal Service's obligation to the Postal Retiree Health Benefit Fund, which will fully fund all mandated payments through 2016.

In addition, Congress and the Postal Service should adopt new ways to increase revenues and cut costs. Congress should confer greater authority to the Postal Service to introduce and sell new products and services that expand the definition of "mail," as well as provide wider pricing flexibility. This should involve re-examination of the Postal Service business model and its underlying legal and regulatory framework.

The Postal Service also needs to continue to cut costs, reduce excess postal facility capacity, and eliminate wasteful programs—continuing the steps taken thus far that already have generated billions of dollars in savings.

During the past several years, our organization has collaborated with the Postal Service on major organizational changes to cut costs and increase efficiencies. Some of these changes have eliminated management and supervisory jobs. In 2009 alone, nearly 3,600 management positions were eliminated in the Postal Service. These changes have dramatically impacted the lives of management employees represented by our organization. Nonetheless, we acknowledged the necessity for these changes because of their underlying merits.

In contrast, the elimination of 6-day delivery lacks business sense and is counter-productive. Reducing delivery days now, when other steps are available, will only degrade the value of mail services for households and the mailing industry that use and rely upon the Postal Service.

Thank you for your leadership and your consideration these comments.

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 PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Chairman Durbin, Ranking Member Collins, and Subcommittee members, my name is Robert Rapoza. I am President of the National Association of Postmasters of the United States (NAPUS). My organization represents the managers-in-charge



of Post Offices throughout the United States. I am pleased to share with you NAPUS' thoughts regarding the finances of the United States Postal Service, with specific attention to necessity of maintaining a universal Postal Service.

Presently, there are about 27,000 Post Offices in the country; at the turn of the 20th century approximately 77,000 Post Offices dotted our cities and heartland. Although the numbers of surviving Post Offices are a mere fraction of their past magnitude, they continue to serve as the sole threshold to government services for millions of citizens and businesses situated in rural areas, small towns, and isolated communities. Simply stated, these treasured public facilities have been, currently are, and will continue to be an essential communications and commercial lifeline for America. Eight percent of this nation's Gross Domestic Product is postal-related, employing approximately 800 million Americans. The Post Office and its influence will reach far into the future, in spite of the digital juggernaut and the cataclysmic impact that the recent recession has had, and continues to have, on the U.S. Postal Service and its customers. As Postmasters, we interact on a daily basis with citizen mailers, destination point postal customers, and small businesses. While these customers may not be the so-called "major mailers", they are the foundation of the American postal system, and the reason why the Postal Service remains the most trusted, respected and valued governmental institution. It is important that Congress work to strengthen and not weaken the Postal Service's ability to continue to perform its historic and vital mission.

NAPUS recognizes the financial challenge confronting the Postal Service, but closing Post Offices, as being suggested by the Postmaster General and others within the agency should be one of last options. In recent speeches and visits to editorial boards, the Postmaster General has advocated the deletion of the statutory prohibition against closing a Post Office "solely for economic reasons." On behalf of the many communities for which a self-sustaining Post Office is beyond the means of a community, NAPUS strongly opposes the Postmaster General's pitch. There are reasons, other than financial, in which a Post Office may be closed. In fact, the Postal Regulatory Commission is presently reviewing a Postal pattern of circumventing the rules under which a Post Office may be "temporarily suspended." Impacted communities are sharing their insight with the PRC, within the context of a case initiated by Hacker Valley, West Virginia.

In the report accompanying the fiscal year 2010 Financial Service and General Government Appropriations Bill, this Subcommittee reaffirmed Congress' strong commitment to rural America in stating that "none of the funds provided [in the Act] be used to consolidate or close small rural and other small post offices." The subcommittee went on to say "These are services that must be maintained in fiscal year 2010 and beyond." Postmasters and Americans fervently believe that Post Offices are key linchpins that bind our nation together. America agrees with this view. A June 2009 Gallup Poll illustrated that 55 percent of Americans oppose the closing of Post Offices; that number escalates to 88 percent if the target is their Post Office.

NAPUS believes that the Subcommittee should consider appropriating the statutorily authorized postal public service subsidy; it amounts to a modest \$460 million. The authorization dates back to 1971, yet the Postal Service has not requested it since 1982. The motivation for the provision is obvious, and it highlights the value that Congress bestows on Post Offices. Section 2401(b)(1) of Title 39 states that the appropriation is to provide "a maximum degree of effective and regular postal service nationwide, *in communities where post offices may not be deemed self-sustaining . . .*" [Emphasis added] Congress cannot be more succinct in setting aside funds to assist small and rural Post Offices. The PRC estimated that closing all small and rural Post Offices would have shed only \$549 million in postal operating costs, in fiscal year 2008.

One of the most vexing quandaries is how to accurately and fairly evaluate the Postal Service's retiree health and Federal annuity obligations. The Committee Report that accompanied the fiscal year 2010 Financial Services and General Government Appropriations Bill acknowledged the problem. This Subcommittee documented that Office of Postal Inspector General projected the Postal Service to be on a schedule which would "result in a 6 percent overpayment to the [Postal Retiree Health Benefits] Fund by the end of 2016." Consequently, the Report directed the Postal Service, in conjunction with the Office of Personnel Management and Office of Management and Budget, to develop legislation to address the prefunding issue. It does not appear that there was a meeting of minds between the Postal Service and the Administration. We urge the Committee to direct the Office of Personnel Management to calculate the FEHBP inflation rate consistent with the methodology used by other large employers and by Medicare. This would reduce the FEHBP index by 2 percent and provide much-needed breathing room for the Postal Service.

Compounding the healthcare pre-funding inequity suffered by the Postal Service is the Postal IG conclusion that the Postal Service has overpaid \$75 billion into the Civil Service Retirement and Disability Trust Fund. This is the result of not correctly allocating the pension costs of pre-1971 postal employees. Ironically, if this pension overpayment were to be applied to pre-funding the Postal Retiree Health Fund, the health liability would be wiped away.

NAPUS understands that remedial legislation may have budget implications. This byproduct of postal relief impact stems from entanglement of postal operations, the unified budget and budget score-keeping. We believe that it should be made clear, through legislation and through credible representations, that postal funds paid into the Retiree Health Fund and the CSRS Fund are not taxpayer-generated, and, as a consequence, should not impact the Federal budget. The only reason the transactions “score” is because the Postal Fund is an “off-budget” account, while the health and retirement funds are “on-budget”, and CBO incorrectly asserts that relief increases postal spending. We believe that congressional budget rules should not penalize the Postal Service for overpaying into the funds, and should not exploit the Postal Service as a cash-cow for the government—particularly since the agency has no milk to give.

Thank you.

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PREPARED STATEMENT OF THE NATIONAL RURAL LETTER CARRIERS’ ASSOCIATION

Chairman Durbin, and members of the Senate Appropriations Subcommittee on Financial Services and General Government, my name is Don Cantriel, and I am President of the National Rural Letter Carriers’ Association (NRLCA), which represents 123,000 bargaining unit rural letter carriers. Our members work in rural, suburban, and urban areas throughout the United States and function as a “post office on wheels” because rural letter carriers offer Postal customers all of the services performed over the counter at a post office. We sell stamps and money orders, accept express and priority mail, offer signature and delivery confirmation, registered and certified mail, and, of course, collect our customers’ parcels.

Mr. Chairman, first and foremost, I would like to thank you for allowing me to submit a written statement for the record. Our country is experiencing a myriad of economic challenges, and the Postal Service has not been immune to these difficult financial times. The typical mailers who represent a large portion of the mailing business—the financial, mortgage, and credit card industries—have all scaled back their mailings as a direct result in cost cutting measures by businesses and the American consumer, resulting in unusually low mail volumes. This unusually low mail volume has caused the Postal Service to take drastic steps to change its business model and its operations.

One drastic step the Postal Service proposes is to eliminate Saturday mail delivery. Mr. Chairman and members of the Financial Services and General Government Subcommittee, I urge you in the strongest and most forceful way not to eliminate the congressionally-mandated 6-day delivery language provision. The provision stating “That 6-day delivery and rural delivery of mail shall continue at not less than the 1983 level” must be included once again in the 2011 Financial Services and General Government Appropriations bill.

The Administration’s Budget Proposal recommends the inclusion of the mandated 6-day delivery provision. The Administration recognizes that the Postal Service, through no fault of its own, is facing real financial challenges. The Administration has pledged to work with the Postal Service, the employee unions, Congress, and other stakeholders to make sure that the Postal Service remains viable and a pillar of the economy. I encourage you to follow the Administration’s lead by including the mandated 6-day delivery language in the 2011 bill and allow the Postal Service to do what it does best—serve the American public.

The Postal Service cannot expect that by working less it will achieve more. There is a dispute between the Postal Service and the Postal Regulatory Commission (PRC), which has regulatory oversight of the Postal Service, over how much money may actually be saved by eliminating a day of delivery. The Postal Service claims it will save \$3.5 billion if it were to eliminate Saturday delivery. The PRC disagrees, reporting the savings will be only \$1.9–\$2.1 billion. Either number represents a very small savings compared to the amount of revenue the Postal Service will lose as businesses or consumers find other methods of delivery to have their mail, packages, and products delivered. Recent history supports my contention that there will be a major loss of revenue if the Postal Service is given the green light to stop Saturday delivery. After passage of the Postal Reorganization Act of 1970, the Postmaster General essentially gave away the parcel business, because the Postal Service be-

lieved that its future was going to be in the collection and delivery of letters—not parcels. The Postal Service thereafter created an Express Mail product, only to give that business away—once again—to private delivery companies. The Postal Service has been fighting ever since to regain a share of each of those markets.

The point I am trying to make Mr. Chairman, is that consumers and businesses will not use a Postal Service that reduces service by 1 day a week or 17 percent. Once consumers and businesses find an alternative—and they surely will—they likely will stay away from the Postal Service for good. The vacuum that would be left by shutting down delivery operations on Saturdays is sure to be filled by a competitor and once we lose that business, we will forever be fighting—at even greater expense—to get it back. This is why I urge you to include the mandated 6-day delivery provision in the 2011 Financial Services and General Government Appropriations bill.

There is an easier way to put the Postal Service on firm financial footing that does not involve eliminating Saturday delivery. First, something must be done about the pre-funding of the Future Retirees Health Benefits Fund (FRHBF). When the 2006 Postal Accountability and Enhancement Act (PAEA) was passed, the Postal Service was experiencing high mail volumes and record revenues. Much has changed since then. Under the PAEA, the Postal Service's statutorily-required payment schedule is too much to bear and is patently unfair during these trying times. No other government agency or corporation is required to pre-fund their retiree health benefits—let alone required to almost fully pre-fund them at an accelerated pace. Reducing the amount of money the Postal Service is required to pay into the FRHBF has the potential to save the Postal Service billions of dollars and still not put employee pensions at risk.

Moreover, the Inspector General reported that the Postal Service has been overcharged \$75 billion on its CSRS Pension Fund responsibility. According to the OIG report, this overcharge has been used to pay the retirement costs of Federal employees, not just postal employees. The report continues to say that if the overcharge was used to prepay the FRHBF; it would fully meet the retiree healthcare liabilities and eliminate the need to continue for the Postal Service to continue paying \$5 billion annually as mandated by the PAEA. The Postal Service should be permitted to have the monies it was overcharged returned.

Finally Mr. Chairman, I ask that the Postal Service receive its limited appropriation reimbursement as mandated by the Revenue Forgone Reform Act of 1993. Revenue is considered forgone when Congress mandates the Postal Service provides mail services for designated mailers at free or reduced rates; such as free mail for the blind and overseas absentee balloting materials. Congress typically then appropriates money to reimburse the Postal Service for that revenue. While this amount will vary from year to year depending on actual usage, the Postal Service is still owed this revenue and I ask that Congress appropriate the proper amount the Postal Service is owed in forgone revenue.

Once again, I thank you for allowing me to submit a statement for today's Subcommittee hearing. If you have any questions, please do not hesitate to contact me at your convenience.

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#### PREPARED STATEMENT OF THE NATIONAL POSTAL MAIL HANDLERS UNION

Thank you, Chairman Durbin, for holding this timely oversight hearing. The Postal Service's financial situation has been garnering lots of headlines and editorials recently, but not all of them have been accurate or fair. These hearings certainly are an important part of gathering the facts, and starting the process necessary to provide financial and other relief to the nation's postal system.

The National Postal Mail Handlers Union (NPMHU) represents 50,000 mail handlers. Our members are located in all of the major mail processing facilities. Mail handlers load and unload the trucks; cancel, prepare, sort, and dispatch the mail; and perform most of the allied duties necessary to the processing of mail. It is difficult and sometimes dangerous work.

In recent years, the NPMHU has worked diligently with Postal Service management on a variety of cost-saving initiatives. We have been meeting on a regular basis, at every level where results can be achieved, from the workroom floor to USPS headquarters at L'Enfant Plaza. We have adopted voluntary programs to improve safety, prevent accidents, and cut ergonomic injuries; we have produced joint interpretation manuals to reduce labor-management disputes and the overall number of grievances and arbitrations; we have agreed to early retirement programs, both with and without incentives; and we have cooperated with USPS efforts to automate and save costs while processing the mail more quickly. Mail handlers also

have experienced substantial decreases in the number of career employees, as well as cuts in hours and overtime; and we have had thousands of our members involuntarily reassigned or excessed into other hours, onto other tours or days of work, or into other facilities, sometimes in far off locations.

The NPMHU recognizes that the current economic environment may require additional responses. We do not believe, however, that eliminating Saturday delivery is change for the better. Saturday delivery anywhere in the United States is a hallmark of the Postal Service, and weekend processing and delivery of mail is vital to maintaining the postal network.

The Postal Service acknowledges, as it must, that the elimination of Saturday delivery will adversely affect some of its current business. There are numerous examples: Netflix is one of the Postal Service's largest customers. Many of your constituents look forward to that Saturday delivery of a DVD, as it provides entertainment for the weekend. What about the delivery of VA or Social Security checks, particularly if there is a Monday holiday? Businesses, particularly small businesses, often rely on Saturday delivery and weekend processing for their financial well-being. There are just too many ways that this proposal is wrong for the Postal Service to allow it to go forward. The NPMHU simply cannot agree that artificially accelerating the loss of volume is a good idea.

Thus, eliminating Saturday delivery is a last resort that should not be seriously considered when there are better solutions available that will not degrade the Postal Service. Several alternatives are obvious, and require action by Congress:

First and foremost, Congress must fix the wholly unrealistic, but statutorily required, schedule for the pre-payment of retiree healthcare benefits. The provisions of the 2006 Postal Accountability and Enhancement Act (PAEA) that established the Retiree Health Benefit Fund (RHBf) may have made sense in 2006 when the economy was healthy and the USPS was growing, but today they need to be modified. Congress and the White House need to step up to the plate and make changes to the RHBf. No Federal agency or significant private entity has any yearly liability remotely resembling the \$5 billion burden now imposed on the Postal Service. Those who want the Postal Service to run more like a private business should allow the USPS to do what businesses are allowed to do: let the Service postpone and adjust its payments to reflect the economic realities currently presented.

Furthermore, the size of the future liability for retiree health was calculated improperly. Gross errors were made on the number of retirees and the annual rate of inflation for healthcare, to name the two most prominent examples. These should be fixed, as the adjustments will provide an important lifeline to the Postal Service.

In short, protestations to the contrary, whether in the halls of Congress or publicly, do not change the actual facts: the calculations underlying the Retiree Health Benefit Fund, and the repayment schedules established by the PAEA, are to blame for a large part of the Postal Service's current financial woes.

Second, the USPS portion of the CSRS pension fund also was improperly calculated. The Office of Personnel Management must be directed to recalculate the USPS liabilities using actuarial methods that are accurate and fair, and then must initiate an inter-governmental transfer of the resulting surplus to the USPS and its ratepayers.

The NPMHU also urges support for the "vote-by-mail" legislation currently before the Senate.

We also urge Congress to grant the Postal Service more flexibility in developing new, innovative ways of conducting its business and increasing its customer base.

With regard to specific legislation, the NPMHU supported the original version of S. 1507, which had a realistic approach to the RHBf funding schedule. Had that legislation passed as introduced, this entire proceeding would have a different character to it. The original version of S. 1507 was legislation that most parties agreed was acceptable. However, the bill was amended into a vehicle to tilt the collective bargaining process in favor of management, despite the fact that the process for four decades has functioned as it was intended, without any labor stoppages, lock-outs, or similar labor-management strife since its inception. The changes added to S. 1507 about the financial condition of the Postal Service were an unnecessary block to constructive resolution of these serious funding issues.

As noted, the financial situation facing the Postal Service calls for immediate resolution, and that resolution rests with Congress and the Executive Branch. Congress must act to ensure that changes to the Retiree Health Benefit Fund and the calculation of the CSRS overpayments are made, so that the Postal Service is able to follow rational accounting methods and commonsense budgeting while it struggles to remain solvent during these tough economic times.

Thank you, again, for holding this oversight hearing.

## PREPARED STATEMENT OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

Mr. Chairman and members of the Subcommittee, my name is William Burrus, President of the American Postal Workers Union, AFL-CIO. On behalf of the 260,000 members of my union, I thank you for holding this hearing today to examine the financial condition of the United States Postal Service (USPS), and for providing the APWU an opportunity to submit testimony.

Since 1775, the Postal Service has sorted, transported and delivered mail throughout the nation. The Service began as a conduit for communication between the Continental Congress and our armies during the Revolutionary War. In 1863, pursuant to statute, the USPS began delivering mail to certain addresses if postage was enough to “pay for all expenses of the service.” By 1896, the Postal Service was making deliveries to certain rural and urban homes 6 days a week. In some cities, in fact, delivery occurred more than once per day until 1950. In other more remote rural areas, deliveries continued to occur fewer than 6 days per week. Today, the USPS delivers to 146 million homes and businesses, 6 days a week. Throughout the Service’s history, however, there have been discussions about reducing the number of delivery days to conserve fuel and reduce costs.<sup>1</sup>

The Postal Service’s mission is to provide the nation with affordable and universal mail service. However, the USPS’ authority was revised on December 20, 2006, with the enactment of the Postal Accountability and Enhancement Act (PAEA). Through this legislation, Congress sought to provide the USPS with tools and mechanisms to help ensure that the USPS is efficient, flexible, and financially sound, but the law has had the opposite effect.

*USPS Financial Condition*

The PAEA has forced the Postal Service virtually into insolvency. It imposed on the Postal Service a \$75 billion obligation to pre-fund retiree health benefits, a liability that is not borne by any other Federal agency.

This requirement, more than any other single factor, has created a USPS deficit of alarming size. A 2008 GAO report found the USPS’s \$5.3 billion shortfall in fiscal year 2007 was caused primarily by this provision of the PAEA.<sup>2</sup>

If the USPS were to release financial records showing liabilities minus this obligation, such documents would clearly demonstrate the disastrous effect the legislation has had. Absent this pre-funding burden, the Postal Service would have experienced a cumulative surplus of \$3.7 billion over the last 3 fiscal years, despite declining mail volume, an economy in chaos, and electronic diversion.

The APWU is compelled to ask: If funding future healthcare liabilities meets sound accounting standards, why isn’t this requirement applied to all Federal and private enterprises? Why doesn’t every branch of government, including Congress, pre-fund future healthcare liabilities?

The PAEA was a mistake, a gross miscalculation, which provided no new revenue stream for the Postal Service while imposing massive, artificial new costs. The pre-funding provision is the central cause of USPS financial difficulties, and we urge Congress to correct it. If this single requirement were rescinded, the elimination of Saturday mail delivery would be unnecessary.

*USPS Share of CSRS Pension Responsibility*

We also strongly urge Congress to give serious consideration to the USPS Office of Inspector General’s findings that the methodology for determining the Postal Service’s contribution to the Civil Service Retirement and Disability Trust Fund is flawed.

For employees who began their career before the Postal Reorganization Act of 1970, pension responsibility is shared between the Federal government and the USPS. The Office of Personnel Management (OPM) established the methodology to be used in determining the contribution of both entities. The USPS OIG commissioned the Hay Group, a well-known actuarial firm, to review the allocation of liabilities for postal pensions between the Federal government and the USPS. The Hay Group’s findings, “Evaluation of the USPS Postal CSRS Fund for Employees Enrolled in the Civil Service Retirement System,” describes the results of its analysis.

Among the findings in the report is that if “the more equitable years-of-service allocation methodology had been used to determine the value of the Postal CSRS Fund, the OIG estimates its value on September 30, 2009, would have been approximately \$273 billion rather than \$198 billion—a difference of \$75 billion.” The \$75

<sup>1</sup> Congressional Research Service, The U.S. Postal Service and Six-Day Delivery: Issue for Congress, July 29, 2009, p. 1.

<sup>2</sup> U.S. Government Accountability Office, U.S. Postal Service: Mail-Related Recycling Initiatives and Possible Opportunities for Improvement, GAO Report GAO-08-599, June 2008, p.1.

billion overpayment would allow the Postal Service to pay a \$10 billion unfunded liability, pay off its remaining debt, and add approximately \$55 billion into the Retiree Health Benefits Fund, which already has an approximately \$35 billion balance. With \$90 billion, the Postal Service would be positioned to fully fund the PAEA obligation.

There is no dispute that the USPS faces a serious financial challenge as a result of the requirement to pre-fund retiree healthcare liabilities and the flawed pension allocation methodology. A more equitable allocation of pension liabilities would offer the USPS stability, which could delay any reduction in the number of mail delivery days and other policies that would undermine its ability to provide universal service at uniform rates to American citizens.

The APWU urges Congress to develop a legislative solution to correct the formula which so unfairly requires postal customers to subsidize pension obligations that should be covered by the Federal government.

Recently, Postal Service announcements have included projections of a \$238 billion deficit over the next 10 years. Frankly, these predictions are outlandish and unsupported. The USPS has offered no justification for these wild claims, and, unfortunately, the media has failed to challenge them.

#### *Six-Day Delivery*

Following the USPS briefing on March 2, 2010, I was critical of USPS proposals to reduce mail delivery to 5 days per week, writing to APWU members, "It would be the beginning of the demise of the Postal Service."

In 2008, both the PRC and the USPS conducted studies of mail delivery. The USPS study concluded that the elimination of one delivery day could save the Service \$3.5 billion per year, while the PRC finding was savings of \$1.93 billion.

Congress considered the reduction in service delivery days more than 30 years ago in response to an earlier study by the USPS. After holding a dozen hearings with hundreds of witnesses, the House of Representatives approved a resolution opposing the service reduction by a vote of 377–9.

Then, as now, the key question was: Is the USPS a profit-driven organization, or a public service?

In 1980, Postmaster General William F. Bolger appeared before Congress insisting that reducing the number of delivery days was necessary to ensure the Postal Service's economic stability. He estimated that the switch to 5-day delivery would result in the loss of 15,000 to 20,000 Postal Service jobs. Based on statements reported by participants in a 2010 meeting of the Mailers Technical Advisory Council, the 2010 version could result in the loss of as many as 199,000 good-paying, middle-class USPS jobs.

However, the APWU's opposition to eliminating Saturday delivery is not based on a concern about losing jobs. (Approximately 2,500 jobs in positions represented by the APWU would be affected.) We are concerned about protecting the vitality of the USPS for the future, and we support the right of every citizen—including those without Internet access and the disabled—to receive high-quality mail service.

Former Postal Regulatory Commission Chairman Dan G. Blair addressed some of the dangers of the proposal in testimony before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security on January 28, 2009. Senator Susan Collins stated that the decision to further reduce postal services would cause "an even bigger drop" in mail volume that could lead to a "death spiral" for the USPS.

#### *New Services*

It is easy to suggest that the Postal Service should offer new services in order to remain financially sound while ignoring free-market obstacles. However, it is unlikely that a single new service or product would be accepted without challenge by private-sector competitors; furthermore, it is unlikely that such services would result in short-term profits for the USPS.

In testimony before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia on November 5, 2009, GAO officials said, "Allowing USPS to compete more broadly with the private sector would raise risks and concerns. As with USPS's non-postal ventures before PAEA was enacted, new non-postal ventures could lose money; and even if they were to make money, issues related to unfair competition would need to be considered."

How can the USPS be expected to fund new enterprises that would require significant start-up costs while it is saddled with a \$75 billion debt? The reality is that requiring a payment averaging \$5.6 billion annually for 10 years would bankrupt any American corporation.

*Savings and Collective Bargaining*

In recent years, the USPS has achieved unprecedented savings through productivity increases, a series of cost-cutting initiatives, and sacrifices by workers. More than 100,000 jobs have been eliminated through attrition over the last 2½ years, and workers have begun paying an increased share of health insurance premiums.

In addition to 5-day mail delivery, the USPS has proposed numerous changes that relate directly to workers' rights and benefits and are governed by collective bargaining. We reject any effort to influence the process with threats of severe work-rule changes. Contract negotiations for both the American Postal Workers Union and the National Rural Letter Carriers Association begin in the fall.

We believe it is unreasonable to single out a handful of provisions achieved through bargaining that benefit workers (such as protection against layoffs) from the host of negotiated stipulations that are contrary to workers' objectives.

*Conclusion*

Mr. Chairman, we believe the rush to 5-day mail delivery is an ill-conceived reaction to declining mail volume during an economic slowdown. While volume may never return to 2006 levels, even a modest return, coupled with repeal of the requirement to pre-fund retiree health benefits, would go a long way toward sustaining the Postal Service for many years into the future.

**STATEMENT OF HON. RUTH Y. GOLDWAY, CHAIRMAN, POSTAL REGULATORY COMMISSION**

Senator DURBIN. I might also say to those in attendance that our next panel includes Ruth Goldway, Chairman of the Postal Regulatory Commission.

We're glad you're here.

She's the longest-serving full-time Senate-confirmed Presidential appointee within the executive branch of the United States Government.

Congratulations.

Also appearing is David Williams, independent inspector general for the U.S. Postal Service since 2003. He's served as inspector general for a number of agencies: the Nuclear Regulatory Commission, Social Security Administration, Department of the Treasury, and the Department of Housing and Urban Development, held top posts at Labor and Transportation Security agencies, former special agent with the Secret Service, and a decorated veteran, and, I'm proud to note, a native of Illinois, graduate of Southern Illinois University in Edwardsville, where my wife attended, and holds a master's in education as a graduate of the University of Illinois, Champaign.

Phillip Herr joins us from the U.S. Government Accountability Office. He's Director in the Physical Infrastructure Team of the GAO. Since joining GAO in 1989, he's managed reviews of a broad range of domestic and international programs. His current portfolio focuses on programs at the U.S. Postal Service and the Department of Transportation. And prior to joining the GAO, he worked in management consulting, and holds a Ph.D. from Columbia University.

Thanks, to each of you, for being here.

I'm going to allow each of you an opportunity to make an opening statement. Your entire statement will be made part of the record.

Ms. Goldway, why don't you proceed.

## SUMMARY STATEMENT OF HON. RUTH Y. GOLDWAY

Ms. GOLDWAY. Thank you. Thank you, Chairman Durbin and Ranking Member Collins. Thank you for the opportunity to testify today.

I'm pleased to represent the Postal Regulatory Commission and to explain our role in whether or not the Postal Service should reduce mail delivery to 5 days.

Under the Postal Accountability and Enhancement Act, whenever the Postal Service considers a nationwide change in the nature of postal services, it must submit a proposal to the Commission requesting an advisory opinion on the change. Under Commission rules, such a request must be filed no fewer than 90 days before the date the Postal Service proposes to make the change effective.

The Commission provides a public, on-the-record hearing process so that mail users and the public can test the Postal Service's proposals and offer supporting or opposing views. Then the Commission issues an opinion that balances all applicable public policies, especially the need to maintain adequate and effective universal service and the need to provide services in an economic and efficient manner.

In this specific instance involving a plan to eliminate Saturday delivery, the Postal Service must also seek congressional approval, because, for over 25 years, since 1983, the delivery levels of that year have been specified as the minimum annual appropriations legislation.

For comparison, just last week the Commission issued and distributed another advisory committee—commission—another advisory opinion in which we reviewed a proposal regarding the process for closing the more than 4,000 retail facilities it denominates as classified stations and branches. There was an overwhelming public support for the maintenance of post offices from all of our participants in the hearing process. The Commission advised the Service to make significant improvements in the process, which would result in a more accurate, comprehensive, and balanced financial projection and would ensure the rights of affected customers who should have a meaningful opportunity to provide input before a decision to cut service is made. Congressional review in this matter could be helpful, but is not required.

When the Postal Service requests our opinion on elimination of Saturday delivery, it will have to provide comprehensive evidence to justify this change. The Commission will follow well-established administrative procedures to analyze the evidence. This includes an opportunity for us to question the Postal Service and an opportunity for the public to provide its views. The Postal Service and participants will have the opportunity to file briefs and issue briefs and submit reply briefs.

The Commission expects to hear from a wide variety of businesses and associations that are dependent on, or make significant use of, the Postal Service. We will build a comprehensive record on the potential cost savings, on volume declines, and on impacts on maintenance of timely and reliable service.



On this important matter, the Commission will also expand participation to include both individuals and groups representing average citizens. As we have done before, we will hold field hearings in cities around the country to learn about specific experience that give meaning to the broad national trend data that we generally rely on.

The Postmaster General's testimony, filed here today, describes a complex plan for 5-day delivery. It is difficult to say precisely how much time will be necessary to develop a thorough advisory opinion. Depending on the completeness of the information presented by the Postal Service, and the issues and the motions raised by individual business participants, a rough estimate would be 6 to 9 months.

The Commission studied the cost savings associated with 5-day mail delivery in 2008 as a part of our "Universal Postal Service and Postal Monopoly" report to Congress. In that report, the Commission presented an estimate that cutting Saturday delivery would have saved the Postal Service \$1.9 billion in 2007, about \$1.6 billion less than the Postal Service calculation at that time. About one-third of the difference was because the Postal Service didn't figure in any volume losses. We estimated a 2-percent reduction in volume, caused by a reduction in service. The Service also didn't account for the added costs of delivering pieces that otherwise would have been delivered on Saturday.

But, neither the Postal Service nor the Commission was quantifying a fully developed change of the type outlined today. We will carefully analyze the Postal Service's filing that should include, when it's filed, a sophisticated and comprehensive presentation of potential cost, volume, and revenue changes to support its estimates of net savings. Hopefully, it will also explore the impacts of 5-day delivery on the Postal Service and on the economic and social interests of its customers. I believe our conclusions will be of help to you and inform your deliberations on legislation.

Today, you also asked witnesses to comment on the current financial situation facing the Postal Service. We hope to discuss our Commission's annual compliance determination with you when it is issued late this month. It will provide a solid analysis of the Postal Service's precarious finances, and in the context of the rate and service performance of fiscal 2009. Suffice it to say that the situation is serious and we are unanimous on the—in the Commission in our hope that Congress will address the retiree healthcare benefit issue promptly.

#### PREPARED STATEMENT

Thank you again for providing me the opportunity to testify. I would be pleased to respond to any questions that you have today.  
 Senator DURBIN. Thanks, Ms. Goldway.  
 [The statement follows:]

#### PREPARED STATEMENT OF RUTH Y. GOLDWAY

Chairman Durbin, Ranking Member Collins and members of the Subcommittee, thank you for the opportunity to testify. I am pleased to represent the Commission today, and to explain its role in the process of reviewing the coming Postal Service proposal for a reduction in the mandated mail delivery frequency. This proposal impacts virtually every citizen in the Nation, and this Subcommittee is wise to turn

its attention so quickly to this issue. Today, I hope to provide you with a clear understanding of the Postal Regulatory Commission's statutory obligation and how we intend to fulfill it.

When the Postal Service determines that there should be a change in the nature of postal services which will generally affect service on a nationwide, or substantially nationwide basis, it must submit a proposal to the Commission requesting an advisory opinion on the change. This requirement was established by the Postal Reorganization Act of 1970, and was retained by the Postal Accountability and Enhancement Act of 2006. Our rules provide that such a request must be filed with the Commission no less than 90 days in advance of the date on which the Postal Service proposes to make the change effective.

The Commission is responsible for providing a public, on-the-record, hearing process so that mail users and other interested members of the public can test the Postal Service's proposal and offer supporting or opposing views. The Commission will then provide an opinion that takes into account all applicable public policies, such as the need to maintain adequate and effective universal service, and the need to provide services in an economic and efficient manner.

While we have not yet received a formal proposal from the Postal Service to eliminate Saturday delivery, we have been told to expect one this month. In this specific instance, the Postal Service must also seek approval from Congress, since for over 25 years, 1983 delivery levels have been specified as a minimum in annual appropriations legislation, thereby requiring maintenance of 6-days-a-week city and rural delivery.

Last week, on March 10, the Commission submitted an advisory opinion on another service change proposal. The Postal Service requested a review of its process for closing the more than 4,000 retail facilities it denominates as classified stations and branches. The Commission found that significant improvements should be made to this process. These improvements would result in more accurate, comprehensive, and balanced financial projections as a basis for Postal Service decisions, and would ensure the rights of affected customers who should have a meaningful opportunity to provide input before a decision to cut service is made. Copies of that opinion have been provided to members of this Committee. I believe this case is representative of the thorough review and constructive advice the Commission provides in response to Postal Service requests.

When the Postal Service submits the request for an advisory opinion on elimination of Saturday delivery, it will provide evidence explaining why it believes this change is justified. The Commission will follow established procedures and create a schedule to analyze that evidence. The schedule will include an opportunity to question the Postal Service, and an opportunity for the public to provide its views, both informally and as part of more formal, technical presentations. The Postal Service and interested members of the public will have the opportunity to brief issues and submit reply briefs.

Based on recent experience, I expect the Commission will receive detailed and thoughtful comments from a wide variety of businesses and associations that are dependent upon, or make significant use of, the Postal Service. To the extent necessary, the Commission will issue information requests so that a comprehensive record exists to support conclusions on potential cost savings, volume declines, and impacts on the maintenance of timely and reliable service.

Additionally, the Commission will expand its outreach efforts to encourage participation by both individuals and groups representing businesses and average citizens affected by the proposal. In recent cases, the Commission has found that going outside of Washington, DC, and holding field hearings in such places as The Bronx, New York, Independence, Ohio, St. Paul, Minnesota and Flagstaff, Arizona has proven extremely helpful. During these hearings, we learn about specific experiences that give meaning to the broad national trend data we generally rely on.

As we have not yet seen the actual Postal Service proposal, it is difficult to estimate precisely the amount of time that will be necessary to develop a thorough advisory opinion. Depending on the complexity of the issues raised both by the Postal Service and by individual and business participants, a rough estimate would be 6 to 9 months.

The invitation to testify today also sought witness comments on the current financial situation facing the Postal Service. Suffice it to say that we are all well aware of the seriousness of the Postal Service's current situation, and hopeful that Congress may see fit to address the retiree healthcare benefit issue promptly. The Commission will issue its Annual Compliance Determination later this month that will provide a full analysis of the Postal Service finances in the context of its rate and service performance in fiscal year 2009. I will make certain that each member of

this Committee is immediately provided with a copy of the Annual Compliance Determination.

As a point of reference, the Commission recently had occasion to approximate the cost savings associated with 5-days-a-week mail delivery. In December 2008, the Commission submitted a report to Congress entitled "Universal Postal Service and the Postal Monopoly", as required by the Postal Accountability and Enhancement Act of 2006. Specifically, the Act required the Commission to estimate the costs of the Universal Service Obligation and the value of the existing monopoly.

The Commission accepted as reasonable an estimate developed by a team of outside consultants that reducing the frequency of delivery from 6 to 5 days would have increased the Postal Service's fiscal year 2007 profits by \$1.9 billion. This was about \$1.6 billion less than a Postal Service calculation at that time. About one-third of the difference was due to the fact that the Postal Service assumed no mail volume would be lost as a result of the reduction in service. The consultants' estimates reflected a 2 percent reduction in volume due to the reduction in service. The other major difference related to the costs of delivering pieces that otherwise would be delivered on Saturday.

However, neither the Postal Service nor the Commission were quantifying a fully developed change proposal of the type the Postal Service has said it will be providing later this month. I look forward to carefully analyzing a Postal Service proposal that includes a sophisticated presentation of potential cost and revenue changes to support its estimates of the impact of elimination of Saturday delivery both on the Postal Service and on the economic and social interests of its customers.

Thank you again for providing me the opportunity to testify today. I would be pleased to respond to any questions Subcommittee members may have.

Senator DURBIN. Mr. Williams.

**STATEMENT OF HON. DAVID C. WILLIAMS, INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL, UNITED STATES POSTAL SERVICE**

Mr. WILLIAMS. Thank you, Mr. Chairman and Senator Collins. I appreciate the opportunity to discuss the Postal Service's current financial condition.

The Postal Accountability and Enhancement Act of 2006 set the Postal Service on a visionary, imaginative course to behave with the agility and customer responsiveness found in the private sector. However, the act's incentives and pressures served to illuminate chronic business-model problems that required rapid correction. Also, the recent economic downturn hit the postal community very hard. Last, the Digital Age has entered a creative-destructive phase, disrupting numerous industries, including the Postal Service.

The Postal Service is moving in the right direction, but its velocity is insufficient to avoid an economic catastrophe that will severely challenge its viability. Actions are needed now in several key areas.

Each year, the Postal Service pays \$7 billion more than is warranted for its benefit funds. This overcharge is the result of exaggerated healthcare inflation percentages, a transfer of Federal pension responsibilities to the Postal Service, and excessive prefunding targets for retiree healthcare and pension funds. Addressing this overcharge could allow needed time to plan and integrate large-scale cost-reduction initiatives. The large network of post offices, plants, and administrative apparatus is financially burdensome. To its credit, the Postal Service has streamlined some of its network, reducing over 130,000 employee positions since 2003 and cutting \$6 billion in costs for 2009 alone.

The Postal Service must accelerate its infrastructure optimization plan while balancing its commitment to service. The Postal

Service's complex workforce rules do not always match mission requirements. The ebb and flow of mail in the processing plants suggest the need for a more flexible staff willing to perform a wider range of duties. The current method of paying carriers by the hour requires closer management than is possible and disincentivizes optimal performance.

We, along with the Postal Service, have recognized the need for a simplified, modernized pricing structure. The Postal Service has three primary product lines: letters, flat mailings, such as magazines, and packages. Yet, it has thousands of price variations for them. Additionally, 24 of the 135 work-share discounts exceed costs avoided, and other discounts may no longer be of value. A simple pricing structure could be easier to use and allow more accurate charges to customers.

A recent poll indicated that reducing 6-day delivery to 5 days has the support of mail recipients, though mailers have expressed concerns. Mail pieces per mailbox have declined significantly, from six pieces per day to four. And reducing delivery days would seem to balance cost by restoring the number of pieces being delivered. Additionally, with the Nation's 40-hour workweek—managing resources for a 5-day business cycle is much simpler than for 6 days. The Postal Service needs to weigh potential savings against possible decreases in revenue and loss of its competitive advantage, since other companies charge premiums for Saturday delivery.

Last, my office is concerned that the Postal Service build-down could be so rapid that the dynamics within and among the large initiatives are not fully understood. Adding 5-day delivery changes to infrastructure optimization, management of the FSS investment, and intelligent mail barcode implementation is daunting. Perhaps a test, beginning in the quieter summer months, would provide a great deal of useful information.

To conclude, I'm not aware of a business in the world that could forfeit \$7 billion annually before its doors open, and survive. Benefit prefunding overcharges should be fixed. Additionally, the Postal Service should aggressively right-size its infrastructure without delay. The clock is ticking, and this may be their last shot. Work rules should be better aligned with mission requirements. A simplified pricing structure should be implemented to bring in new business and enable accurate calculation of revenues due.

The world is in the midst of a digital revolution, and it's a wild ride for the Nation's entire communications infrastructure. Globalization and the Digital Age are providing exciting opportunities, but only for some. Tech centers in India and China are tightly surrounded by people pulling ploughs with water buffalo, people who have been completely left behind.

America has taken many actions in the past, such as land-grant universities, TVA, rural mail delivery, and interstate highways, to ensure that people are not left behind. The powerful and unpredictable events facing the communications industry may require such action, to assure that all Americans have universal access and the opportunity to take part in this exciting new world.

Our communications infrastructures have to recover from the shock and trauma of a changed world to assure their readiness to play both traditional and emerging roles in support of our citizens.

Thank you.  
 Senator DURBIN. Thanks a lot.  
 Mr. Herr, your turn.

**STATEMENT OF PHILLIP HERR, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. HERR. Thank you, Chairman.

Chairman Durbin and Ranking Member Collins, I'm pleased to participate in this hearing on the U.S. Postal Service.

Today, I will briefly discuss its financial condition and forecast. I will also provide GAO's perspective on the Postal Service's need for restructuring, as well as highlight questions for Congress to consider regarding changing delivery from 6 to 5 days.

Turning first to the Postal Service's financial condition. As mail volume declined by 35 billion pieces in fiscal years 2007 through 2009, the Postal Service's financial viability has deteriorated, leading to \$12 billion in losses. Current forecasts, discussed earlier, are that mail volume will decline to 167 billion pieces this fiscal year, the lowest levels since 1992. The Postal Service projects a record loss of over \$7 billion this fiscal year, while taking on \$3 billion in debt. Its outstanding debt will increase to \$13.2 billion, close to its \$15 billion statutory limit.

The Postal Service does not expect total mail volume to return to its former levels when the economy recovers. Simply put, the economic downturn and continuing shift to electronic communications and payments has changed how mail is used. By fiscal year 2020, the Postal Service projects further volume declines of about 16 percent, to 150 billion pieces, the lowest level since 1986. First-class mail volume is projected to decline by another 37 percent over the next decade, as seen in figure 3 of my written statement. And less-profitable standard mail, primarily advertising that's subject to economic fluctuations, is projected to remain roughly flat over the next decade.

Turning to restructuring and 5-day delivery. As Senator Collins noted, in July 2009 GAO added the Postal Service's financial condition to our high-risk list again and reported that action is urgently needed in multiple areas so that the Postal Service can achieve financial viability. Such actions should include restructuring its operations, networks, and workforce to reflect changes in mail volume and revenue. The longer it takes for the Postal Service and Congress to address these challenges, the more difficult they will be to overcome.

We believe that no single change will be sufficient to address the Postal Service's pressing challenges, and have identified key actions the Postal Service and/or Congress could take. Compensation and benefits costs represent 80 percent of the Postal Service's costs, as Senator Durbin mentioned earlier. Cost-savings opportunities are possible with regard to personnel and benefits.

In terms of retirements, annually through 2020, about 5 percent of Postal Service employees will be eligible and are expected to retire. That represents approximately 300,000 employees, about one-half the current workforce. In terms of benefit costs, postal employees have 80 percent of their health benefit premiums covered, 8 percent more than most Federal employees.

Consolidating processing and retail networks is also needed, given mail volume declines. Removing excess capacity is necessary in the 600 processing facilities, where first-class mail processing capacity exceeds needs by 50 percent.

In the retail area, approximately 30 percent of revenue currently comes from purchases at nonpostal locations, such as grocery stores, indicating that consumers have begun shifting to alternatives. The network of 36,500 retail facilities can also be reduced. Maintenance has been underfunded for years, resulting in deteriorating facilities and a backlog.

Another opportunity for savings is consolidating the postal field administrative structure by reviewing the need for 74 district offices and eight area offices. And because cost-cutting alone will not ensure a viable Postal Service, generating revenue through new or enhanced products is needed to maximize profitable mail volume.

Two additional options that would require congressional approval involve, first, the funding requirements of retiree health benefits. As mentioned today, last-minute congressional action was needed this past September to reduce the Postal Service's required payments from \$5.4 billion to \$1.4 billion. And, second, reducing delivery from 6 to 5 days.

Questions we have raised that Congress might wish to consider regarding changing delivery from 6 to 5 days include: How would eliminating Saturday delivery affect efforts to increase volume? How would delivery service standards be affected? How will consumers and business customers be affected in their operations? And how much leadtime would be needed to modify postal operations and financial systems for this actually to take place?

Such issues must be addressed so that stakeholders fully understand the potential ramifications of these changes. GAO also expects to analyze this proposal when it becomes available.

Mr. Chairman, in conclusion, the longer it takes for the Postal Service and Congress to realign the Postal Service to the changing use of the mail, the more difficult change will be. Toward that end, GAO has an ongoing review to evaluate options for long-term structural and operational reforms and we plan to issue our report in April.

#### PREPARED STATEMENT

This concludes my prepared statement, and I'm pleased to answer any questions.

Thank you.

[The statement follows:]

#### PREPARED STATEMENT OF PHILLIP HERR

#### HIGHLIGHTS

##### *Why GAO Did this Study*

The U.S. Postal Service's (USPS) financial condition and outlook deteriorated significantly during fiscal year 2009. USPS was not able to cut costs fast enough to offset declining mail volume and revenues resulting from the economic recession and changes in the use of mail, such as electronic bill payment.

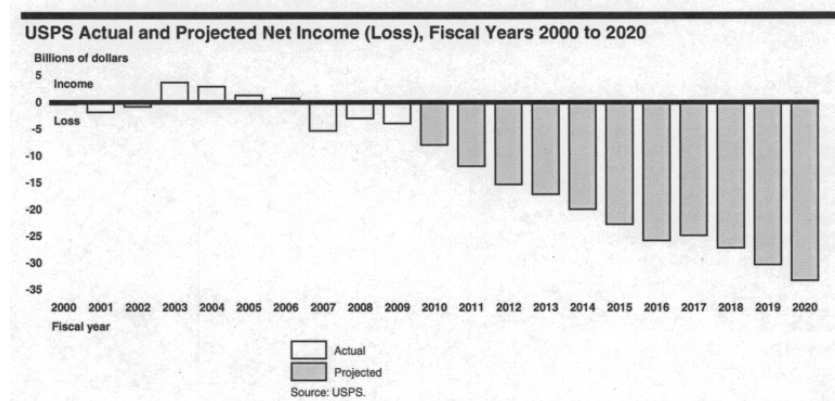
In July 2009, GAO added USPS's financial condition and outlook to its High-Risk List and reported that USPS urgently needed to restructure to improve its financial viability. Declines in mail volume and revenue, large financial losses, increasing debt, and financial obligations will continue to challenge USPS.

This testimony provides (1) information on USPS's financial condition and forecast and (2) GAO's perspective on the need for USPS restructuring. In addition, questions and issues are included for Congress to consider regarding USPS's proposal to reduce delivery from 6 to 5 days. This testimony is based on GAO's past and ongoing work, including its work on postal reform issues, its report adding USPS's financial condition and outlook to its High-Risk List, and updated information on USPS's financial condition and outlook.

#### FINANCIAL CRISIS DEMANDS AGGRESSIVE ACTION

##### *What GAO Found*

As mail volume declined by 35 billion pieces (about 17 percent) in fiscal years 2007 through 2009, USPS's financial viability deteriorated, with close to \$12 billion in losses, and it does not expect total mail volume to return to its former level when the economy recovers. USPS forecasts that total mail volume will decline to 167 billion pieces in fiscal year 2010—the lowest level since fiscal year 1992, and 22 percent less than its fiscal year 2006 peak. It also projects a record loss of over \$7 billion. Further, USPS has halted construction of most new facilities and expects to borrow \$3 billion in fiscal year 2010, which would bring its total outstanding debt to \$13.2 billion, close to its \$15 billion statutory limit. Looking forward, USPS projects that by fiscal year 2020, total mail volume will further decline by 16 percent, to the lowest level since 1986. Absent additional actions to cut costs and increase revenues, USPS expects financial losses will escalate over the next decade.



Action is urgently needed in multiple areas by USPS and Congress to address USPS's pressing challenges so that it can achieve financial viability, including restructuring USPS operations, networks, and workforce to reflect changes in mail volume, revenue, and use of mail. The longer it takes for USPS and Congress to address USPS's challenges, the more difficult they will be to overcome. When GAO placed USPS's financial condition and outlook on its High-Risk List, it identified the following key actions USPS and/or Congress could take: reduce employee compensation and benefits; consolidate retail and processing networks; consolidate administrative field structure; generate revenue through new or enhanced products; change funding requirements for retiree health benefits; and realign delivery services. GAO will analyze USPS's proposal to reduce delivery from 6 to 5 days when it becomes available. Included in this testimony are questions and issues for Congress to consider regarding delivery changes. GAO will also be issuing its report later this spring that provides its perspective on USPS's financial crisis, as well as additional options for restructuring.

Mr. Chairman and Members of the Subcommittee: I am pleased to participate in this hearing on the U.S. Postal Service's (USPS) financial condition, a topic we have been continually monitoring given USPS's deteriorating financial condition during fiscal year 2009. My statement will provide (1) information on USPS's financial condition and forecast and (2) our perspective on the need for USPS restructuring. In addition, we provide questions and issues for Congress to consider regarding USPS's proposal to reduce delivery from 6 to 5 days.

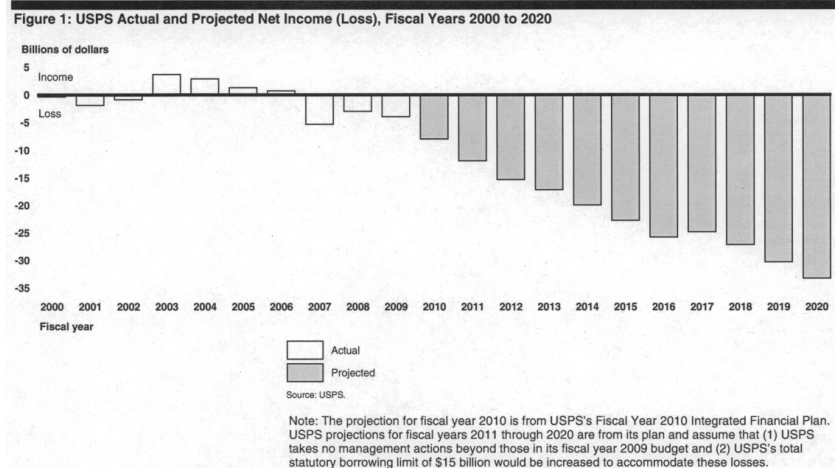
My statement is based upon our past and ongoing work, including our work on postal reform issues, our report adding USPS's financial condition and outlook to our High-Risk List, and updated information on USPS's financial condition and out-

look. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

#### USPS'S FINANCIAL CONDITION HAS DETERIORATED AND ITS OUTLOOK IS POOR

As mail volume declined by 35 billion pieces (about 17 percent) in fiscal years 2007 through 2009, USPS's financial condition deteriorated, with close to \$12 billion in losses, and it does not expect total mail volume to return to its former level when the economy recovers. This volume decline was largely due to the economic downturn and changing use of the mail, with mail continuing to shift to electronic communications and payments. In July 2009, we added USPS's financial condition and outlook to our High-Risk List and reported that USPS urgently needed to restructure to address its financial viability.<sup>1</sup> Despite \$6.1 billion in cost savings in fiscal year 2009 as well as congressional action that relieved USPS of \$4 billion in mandated payments to prefund postal retiree health benefits,<sup>2</sup> USPS still reported a loss of \$3.8 billion for the year. Also, USPS debt increased by the annual statutory limit of \$3 billion, bringing outstanding debt to \$10.2 billion at the end of fiscal year 2009.

These declines along with large financial losses, increasing debt and financial obligations, are projected to continue to challenge USPS. Most recently, total mail volume for the first quarter of fiscal year 2010 was down almost 4.5 billion pieces, a decrease of almost 9 percent over last year. For fiscal years 2010 and 2011, USPS is projecting annual deficits exceeding \$7 billion and additional pressures to generate sufficient cash to meet its obligations. Further, USPS has halted construction of most new facilities and has budgeted \$1.5 billion in capital cash outlays (mostly for prior commitments), which is down from the average of \$2.2 billion in the previous 5 fiscal years. USPS also expects to borrow \$3 billion in fiscal year 2010, which would bring its total outstanding debt to \$13.2 billion, close to its \$15 billion statutory limit, which it could reach as early as fiscal year 2011. USPS projects that financial losses will escalate over the next decade, with cumulative losses of over \$230 billion by fiscal year 2020 if its planned cost reduction and revenue generation initiatives are not implemented. (see fig.1).



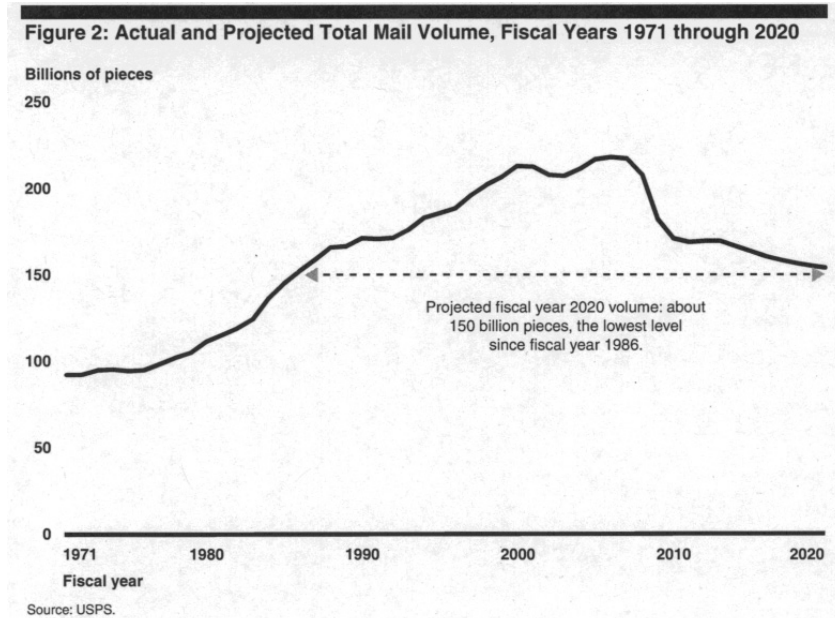
Further, USPS does not expect total mail volume to return to its former levels when the economy recovers. It projects that total mail volume will decline to 167 billion pieces in fiscal year 2010—a level not seen since fiscal year 1992, and 22 per-

<sup>1</sup> GAO, *High-Risk Series, Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington, D.C.: July 28, 2009).

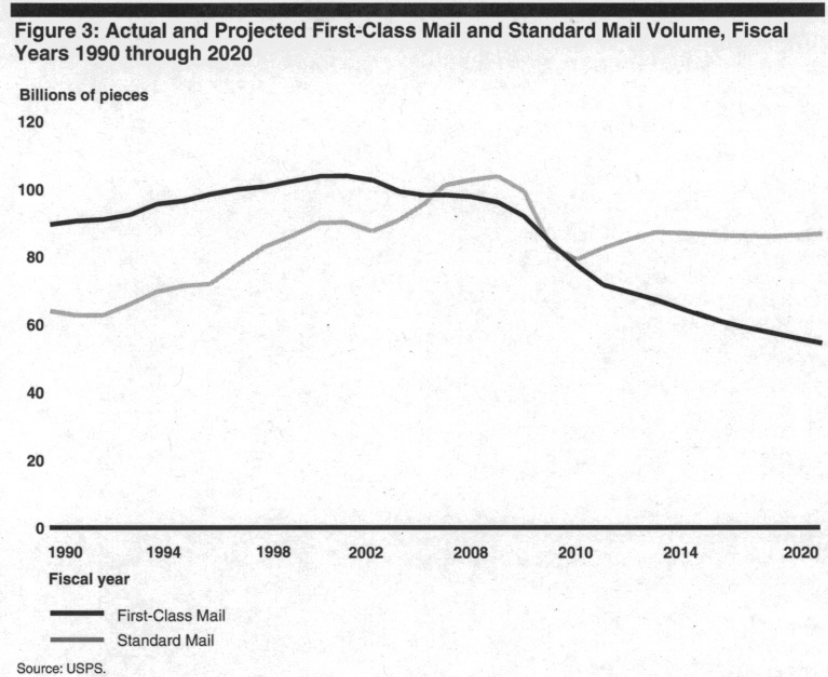
<sup>2</sup> A looming cash shortfall in 2009 necessitated last-minute congressional action to reduce USPS's mandated payments to prefund retiree health benefits from \$5.4 billion to \$1.4 billion. Pub. L. No. 111-68, § 164, 123 Stat. 2023 (Oct. 1, 2009).



cent less than its fiscal year 2006 peak. By fiscal year 2020, USPS projects, at best, further volume declines of about 16 percent, to about 150 billion pieces, the lowest level since 1986 (see fig. 2).



- First-Class Mail volume has declined 19 percent since it peaked in fiscal year 2001 and USPS projects that it will decline by another 37 percent over the next decade. (see fig. 3). This mail is highly profitable and generates over 70 percent of the revenues used to cover USPS overhead costs.
- Standard Mail (primarily advertising) volume has declined 20 percent since it peaked in fiscal year 2007, and is projected to remain roughly flat over the next decade. This class of mail is profitable overall but lower priced, so it takes 2.5 pieces of Standard Mail, on average, to equal the profit from the average piece of First-Class Mail. Standard Mail volume was affected by large rate increases in 2007 for flat-sized mail, such as catalogs, and the recession that affected advertising such as mortgage, home equity, and credit card solicitations. These solicitations appear unlikely to return to former levels. Standard Mail also faces growing competition from electronic alternatives, increasing the possibility that its volume may decline in the long-term.



In addition to the projected losses caused by declining mail volume, USPS believes that stagnant revenue, costs of providing universal service, and rising workforce costs will also lead to losses.

#### USPS AND CONGRESS NEED TO ACT AGGRESSIVELY TO ADDRESS FINANCIAL CRISIS

USPS urgently needs to restructure to improve its current and long-term financial viability. On March 2, 2010, USPS addressed these issues in its plan, entitled “Ensuring a Viable Postal Service for America: An Action Plan for the Future,”<sup>3</sup> which identified seven key areas where-in it would need legislative changes or congressional support. Improving its financial viability is critical because USPS plays a vital role in the U.S. economy, and is at the core of a mailing industry valued at about a trillion dollars, according to USPS. Moreover, it is the largest civilian Federal agency, employing approximately 599,000 career employees as of December 31, 2009 and operating a total of about 38,000 facilities nationwide as of September 30, 2009.

We have previously concluded that restructuring is needed in multiple areas, including action and support by Congress, since no single change will be sufficient to address USPS’s pressing challenges. According to USPS, even if it took all of the actions it could under existing law, it would still face unsustainable losses of at least \$115 billion by 2020. A major challenge for USPS is to cut costs and restructure quickly enough to offset unprecedented volume and revenue declines—particularly costs related to its workforce, retail and processing networks, and delivery services—so that it can cover its operating expenses. We have an ongoing review, as mandated by the Postal Accountability and Enhancement Act of 2006,<sup>4</sup> to evaluate options and actions for the long-term structural and operational reforms of USPS. Due to the urgency of the USPS financial crisis, we plan to issue our study in April 2010, ahead of the December 2011 statutory deadline.

When we placed USPS’s financial condition and outlook on our High-Risk List, we identified the following key actions USPS and/or Congress could take:<sup>5</sup>

<sup>3</sup> USPS’s plan and related material are available at <http://www.usps.com/strategicplanning/futurepostalservice.htm>.

<sup>4</sup> Pub. L. No. 109–435, § 710 (Dec. 20, 2006).

<sup>5</sup> GAO–09–937SP.

- Reduce compensation and benefit costs through
    - retirements: Annually through 2020, about 5 percent of USPS employees will be eligible and expected to retire, according to USPS. That represents approximately 300,000 employees, about half of the workforce as of March 2, 2010.
    - lower benefit costs: USPS pays a higher percentage of employee health benefit premiums than other Federal agencies (80 percent versus 72 percent, respectively). In addition, USPS pays 100 percent of employee life insurance premiums, while other Federal agencies pay about 33 percent.
  - Consolidate retail and processing networks
    - Remove excess capacity in the 600 mail processing facilities nationwide, where processing capacity for First-Class Mail exceeds processing needs by 50 percent.
    - Maximize use of lower-cost retail alternatives: Approximately 30 percent of USPS retail revenue currently comes through alternate channels, such as stamps bought by mail, on the Internet, and at grocery stores, indicating that customers have begun shifting to such alternatives.
    - Reduce the network of 36,500 retail facilities, where maintenance has been underfunded for years, resulting in deteriorating facilities and a maintenance backlog. USPS recently reported that it has more retail facilities than McDonalds, Starbucks, and Walgreens combined. Further, it stated that its post offices average about 600 visits per week, representing only 10 percent of average weekly visits to Walgreens.
  - Consolidate field administrative structure: Review the need for 74 district offices and 8 area offices.
  - Generate revenue through new or enhanced products: Use its pricing and product flexibility to maximize profitable mail volume.
- In the past, we have also discussed, and the Postal Service has recently proposed, additional options for restructuring that would require congressional approval:
- Change funding requirements for retiree health benefits.*—USPS asked Congress to revise the funding requirements for its retiree health benefit obligation. USPS had difficulty making its required payment to prefund retiree health benefits in fiscal year 2009 and has warned that it may have similar difficulty for fiscal year 2010. As noted, in fiscal year 2009, a looming cash shortfall led to last-minute congressional action to reduce USPS's required payments to prefund retiree health benefits from \$5.4 billion to \$1.4 billion.
  - Realign delivery services with changing use of mail.*—USPS has asked Congress to allow it to reduce delivery from 6 days to 5 days per week, stating that eliminating Saturday delivery would provide annual savings of about \$3 billion.<sup>6</sup> The Postal Regulatory Commission (PRC) estimated in 2008 that eliminating Saturday delivery would result in savings of about \$1.9 billion, based on somewhat different assumptions regarding the likely effects on mail volume and costs.
- The Postmaster General stated in March 2010 that USPS plans to request a PRC advisory opinion on this change, which would lead to a public proceeding that would include input by interested parties. Before this plan could be implemented, Congress would need to stop including statutory restrictions contained in USPS annual appropriations that mandate 6-day delivery. Congress might wish to consider several questions regarding such a change:
- How would eliminating Saturday delivery impact USPS's efforts to grow mail volume and encourage commercial mailers to continue using the mail?
  - How would eliminating Saturday delivery affect mail processing costs? Salary and benefits for mail processing employees and carriers?
  - What will be the expected effects on delivery service standards?
  - How will consumers and business customers be affected by a move to 5-day delivery? How does USPS plan to mitigate these effects?
  - How does USPS plan to communicate eliminating Saturday delivery and other related changes to mailers and the public?
  - Will there be sufficient P.O. boxes to handle a potential spike in demand for those customers wishing to pick up mail on Saturdays?
  - How much lead time would be needed for USPS to modify its operations and financial systems before eliminating Saturday delivery?
  - What other options has USPS considered that could significantly reduce costs without reducing delivery service?
- These issues need to be addressed in the expected USPS 5-day delivery proposal so that stakeholders fully understand the potential ramifications of these changes.

<sup>6</sup>USPS plans call for continuing providing window retail service and delivery to post office boxes on Saturday, as well as remittance mail service for business mailers.

More broadly, USPS faces larger issues with regard to restructuring and its financial viability. The longer it takes for USPS and Congress to address USPS's challenges, the more difficult they will be to overcome.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions that you or other Members of the Subcommittee may have.

Senator DURBIN. Thanks a lot, to the panel.

Now, we all understand what's happened to the Postal Service—the loss of volume, the loss of revenue and such—but, Mr. Williams thinks he's found a winning lottery ticket here, for \$75 billion. And before we start talking about the pain of cutting, I've got to ask Ms. Goldway what the Postal Regulatory Commission is doing about this opinion of Mr. Williams and the \$75 billion.

Ms. GOLDWAY. The Postal Service has asked, under a provision in the Postal Accountability Act, to—asked the Commission to hire an independent actuarial firm to review this issue and to provide a report to the Commission and to the public on the reliability of the inspector general's estimate. And we have issued a statement of work and expect to get a contract with an independent actuary in place in a little more than 30 days, perhaps 45 days, and we'll determine, then, just how long it takes, but we certainly want to be part of the discussion about the financial reliability of that proposal before it moves forward.

I should also mention that, as part of a request that was made by Chairman Lynch of the House subcommittee last year, we were asked to look at the Healthcare Retiree Benefit Fund, and our actuarial review of that issue pointed to a position where the Postal Service, under assumptions that were somewhat different from the OPM's assumptions, but more in line with general actuarial assumptions, could be paying at least \$2 billion less each year, and still have the same amount of funding for the retiree health payments at the end of the 10-year period that was required under the law. So, I think that, in both cases, the research that we provide can give you options in the decisions that you might make about how to proceed.

Senator DURBIN. So, can you tell me the timetable there on the \$75 billion issue?

Ms. GOLDWAY. Well, unfortunately, we don't have a response from the actuarial yet as to how much time it will take. We think we can do it within 45 days. We're certainly going to work with our bidders to see who can provide us that information as quickly as possible.

Senator DURBIN. And what is the next step after PRC has made its judgment on this estimate?

Ms. GOLDWAY. We report the—our findings to the Postal Service and share it with the public. And then, it's really up to the other players, the—in the administration or in Congress, to determine what information they feel is most reliable to act on.

Senator DURBIN. So, let's assume, for the sake of discussion, that you find it's true, they've overpaid—

Ms. GOLDWAY. Right.

Senator DURBIN [continuing]. \$75 billion. Can the Postal Service recapture that money?

Ms. GOLDWAY. I think if we find that, we will certainly present an argument that it would be fair for the Postal Service to recapture that money. Just how it's done, in terms of transferring funds

from year to year or all at once, would be something that I think the Congress and OPM and OMB would have to participate in.

Senator DURBIN. Mr. Williams, you didn't mention the \$75 billion in your testimony. Are you having second thoughts?

Mr. WILLIAMS. We are not having second thoughts, sir. The—I—actually, I did try to allude to it, but I was trying to cover as much ground as the hearing title suggested.

Senator DURBIN. And so, I won't go into a great deal of detail on that, but I assume that that is what's being debated currently, with the independent actuaries and such, at the Postal Regulatory Commission.

Mr. WILLIAMS. It is. After our finding on the healthcare overpayment, Congress asked that OPM and OMB and the Postal Service get together to try to come up with a fiscally responsive—responsible proposal for legislation. I believe this issue has been added to that issue so that there'll be a comprehensive solution that's to be developed by the three of them and presented to Congress.

Senator DURBIN. One of the things you talked about is a—and I underlined it—"exaggerated healthcare inflation percentage." It was—which Senator Collins is more aware of than I am.

Mr. WILLIAMS. Yes.

Senator DURBIN. But, are you suggesting that the anticipated cost of the healthcare system of the Postal Service should be lower, that they have anticipated more expenses than you believe are warranted?

Mr. WILLIAMS. OPM has set a growth rate for the—for future costs, of 7 percent a year. We benchmarked that against the private sector, and we discovered that it was the general consensus—the overwhelming general consensus—that 5 percent was a more realistic growth rate. That's also what the Department of Health and Human Services (HHS) uses for Medicare growth rate. That—the delta there was \$13.2 billion. OPM set about downgrading its estimates much more closely to that growth rate, and then they've gone into these three-party talks to try to understand what to do.

Senator DURBIN. And if it is decided to take a lower growth rate, then, of course, the annual payment is going to be reduced accordingly.

Mr. WILLIAMS. Yes, sir.

Senator DURBIN. And what's the timetable on that decision?

Mr. WILLIAMS. There was not a timetable set. I believe the meetings have begun. There have been one involving the principals, and I believe there'll be some followup meetings—

Senator DURBIN. Well, it sounds to me like we have two or three major issues outstanding here that will determine whether or not we have to make this decision about reducing service.

Mr. WILLIAMS. These are very large, very serious—

Senator DURBIN. Seventy-five billion dollars overpayment—question mark—Postal Regulatory Commission. Two billion dollars that you mentioned, Ms. Goldway, that may be an overpayment. Perhaps an exaggeration on the anticipated healthcare benefits down the line. So, it seems to me that before we start making dramatic changes in the Postal Service, some of these questions need to be answered. I would think that would be reasonable.

But, Mr. Herr, I think what you're saying is, "But, if you look at the economics of Postal Service"——

Mr. HERR. Right.

Senator DURBIN [continuing]. "Let's get real."

Mr. HERR. Well, I think part of it, looking at the long-term analysis—that was part of the study the Postal Service just released in March, they had some consulting firms make a projection out to 2020, and one of the things that we noted there is that they're expecting a long-term decline, in terms of the more profitable mail and how mail is used. So, as we stand back and look at it, we think that it's a good opportunity to take that footprint into consideration, in terms of the network and workforce.

Senator DURBIN. I'm going to violate every law—or every rule that I learned in law school and ask you a question anyway. How big a problem is Congress, when it comes to this issue about the future of the Postal Service?

Mr. HERR. Well, as you know, there's often instances where there are prohibitions put in place, in terms of closures and things of that nature.

Senator DURBIN. Guilty, as charged.

And it's a tough issue. And we realize that it's a difficult issue, but it's also one that—I think, as you look at these broader, longer-term trends, it's important to look at the Postal Service and then think about what the Service is, and how that could be realigned with the demand for mail.

I tried to pose this question to the Postmaster General, about the business model for the Postal Service in this changing world. And I know that's a challenge. I don't know that many executives with his responsibility could really envision how to reinvent, to keep up with it. And you kind of see some elements here that are obvious, in terms of infrastructure and the future.

Mr. HERR. Well, and I think—in the hearing today, there's been some good discussion about retail alternatives, in terms of moving some of those into places like supermarkets or pharmacies, where people are already going, that would be an opportunity to save. Also, on the processing side, just looking at what's needed to handle the mail volumes now, and then what's projected.

Senator DURBIN. Thanks a lot.

Senator Collins, we have two votes starting at 4:15, so——

Senator COLLINS. I'll be fast.

Senator DURBIN [continuing]. Proceed.

Senator COLLINS. The witnesses will be happy about that.

Ms. Goldway, just for clarification, the process that you go through, which may take as long as 6 months or 9 months—assuming Congress changed the law to allow the Postal Service to make its own decision on delivery, would the Postal Service be precluded from going ahead with that decision until the PRC has given its judgment?

Ms. GOLDWAY. It's my understanding that the Postal Service has to seek our advisory opinion. It doesn't have to follow that opinion, but it has to seek our opinion. And the process of public input becomes really valuable.

So, for instance, in this recent case, where the Postal Service wanted to close what they call "stations" and "branches," the level

of public participation and concern that was raised about the fact that customers weren't getting the input that they wanted, and that they wanted postal services maintained in the offices, slowed down the Postal Service's decisionmaking, and they began to rethink just how they were going to realign their postal network, and the public process was helpful.

We believe the public process will be helpful regardless of what the Congress does. But, we do think that the public process will probably help you, because this is a very serious issue. And as you had said earlier, the brand of the Postal Service, its commitment to having people on the street 6 days a week, its notion of what it is in the future, is really threatened by the reduction from 6 to 5 day.

One of the interesting figures we heard was that young people value 6—the 6th day more than older people, even though they don't use the mail as much, that's the day they want it. So, if you want young people to keep going into the mail, this process may not be the right business model.

Those of the kinds of issues we are going to explore when we have our hearings.

Senator COLLINS. Thank you.

Mr. Williams, I am troubled, obviously, by the prospect of the Postal Service laying off 13,000 people in this terrible economy, letter carriers all across the United States. And I'm particularly troubled by that because there are reports—and you have done, I believe, one of the reports—concluding that what is out of whack in the personnel costs of the Postal Service are the benefit levels for health insurance and life insurance. I mentioned the 100-percent payment for premiums for life insurance, versus 3—33 percent for the Federal employees.

Has there been any analysis done of relative savings? For example, if you cap the 6-day delivery and didn't have to lay off 13,000 people who are going to have a hard time finding work, but instead, you brought the benefit structure into line with the benefits that Federal employees receive who are participating in the same kinds of programs. Has there been any sort of relative analysis?

Mr. WILLIAMS. To my knowledge, there has not been. We're—the actual proposal is 2 months away, and it may contain something like that. We're unaware of its contents that will go to the PRC.

We did do that body of work, and that was our finding. We would be pleased to work with your staff to try to make a—that sort of determination. That would certainly be an interesting discovery.

Now, those agreements are contained in the labor—

Senator COLLINS. Yes.

Mr. WILLIAMS [continuing]. Agreements, and would have to be shifted. But, at this point, I know that the leadership of the unions is certainly looking out for the well-being of their people, and they might well be interested in that, as well, and—when they go into negotiations.

Senator COLLINS. I think that would be helpful information for us to have.

Mr. Herr, have you looked at that issue, by chance? The—

Mr. HERR. We have not looked at it. I remember at the Senate hearing last January, you and Senator Carper were there—I think

the Postmaster General offered an estimate of a \$700 million annual savings if something like that were to be adjusted. But, we've not done any specific analysis on that.

Senator COLLINS. Okay. Thank you.

#### OVERPAYMENT

I want to clarify two issues, just to make sure that I personally understand the issues before us. Mr. Williams, when you came up with your \$75 billion estimate of an overpayment, is that an overpayment for the pensions of retired postal workers, not to be confused with the money that goes into the Retiree Health Benefits Fund?

Mr. WILLIAMS. It is, Senator; that regards—there was an earlier report that had to do with the inflationary growth and the overpayment into the Healthcare Fund. This most recent report, regarding the \$75 billion, regards the Pension Fund.

Senator COLLINS. I think that's very important for us—

Mr. WILLIAMS. Yes.

Senator COLLINS [continuing]. To understand, that we're talking about two different pots of money here.

And, Mr. Herr, what is your analysis on both of these issues, on whether or not there is an overpayment of such a staggering amount to the Pension Fund for retirees? Let's deal with that issue first.

Mr. HERR. On that particular issue, I've asked our financial folks and our chief actuary to look at this, and they noted—and it's also noted in the back of the inspector general's report—that the board of actuaries reviewed that, and we believe that their assessment is correct, that OPM's methodology was valid and was consistent with the law.

Senator COLLINS. And so, you would disagree with OPM's assessment, in—

Mr. HERR. No, we believe that OPM's assessment is correct.

Senator COLLINS. I'm sorry. So, you agree with OPM, and you do not agree with Mr. Williams' assessment, that his study—I'm not trying to create conflict here, I'm just trying to get an understanding. I'm really not.

Mr. HERR. Yes.

Senator COLLINS. Is that accurate? Okay.

And it's my understanding, though—we'll go back to OPM—that OPM has stuck to that decision, as has OMB.

I would note, Mr. Chairman, that in our conference report last year, we asked the Postal Service to work with OPM and OMB to come to us with a proposal and an answer to this, and I think we need to push them and follow up on that.

Mr. Herr, the second issue is the payment to the Retiree Health Benefits Fund—

Mr. HERR. Right.

Senator COLLINS [continuing]. And that is the stream of payments established by the 2006—

Mr. HERR. Yes.

Senator COLLINS [continuing]. Act. And I would like your best judgment on, what should we do about that issue? I won't go on with my opinion, but I'd like your best judgment.



Mr. HERR. Yes.

Senator COLLINS. What's the best way for us to handle that issue?

Mr. HERR. Senator Collins, we have a report—I mentioned our business model report—that we're expecting to release in about 3 weeks, that has a discussion of that. We talk about several approaches for Congress to consider. One, we take a look at what the Postal Service has proposed, which is a pay-as-you-go model. We also looked at a reamortization and we lay out in a table what that would mean, in terms of the costs. We provide, I think, a clear explanation, so Congress has a sense of what's involved here, what the magnitude of the funding is, to help you make some really tough policy decisions about where things are now, where they stand, and then where you might want to go, going forward.

Senator COLLINS. And we'll get that study shortly, then?

Mr. HERR. Yes, you will.

Senator COLLINS. Great. I think that's going to be very helpful.

My final question, since I know our time is short. Mr. Herr, isn't it a problem if we come up with an amortization schedule that suspends payments for several years and then ramps them up? Is there any reason to believe that the Postal Service, given what you've described about the projections for its volume and the pressure, would be able to better afford a greater payment, say, beginning 4 or 5 years from now, than would be the case under the current law?

Mr. HERR. Everything we've seen suggests that they're going to have difficulty, now or in the future, with some of these payments. They're large numbers, but they're also very large obligations—500,000 current retirees; we talked about 300,000 people going into retirement in the next 10 years. So, it's really important to assess what they're able to do and then try to find the amount that will be a reasonable payment toward those obligations.

Senator COLLINS. Thank you very much.

Thank you very much, Mr. Chairman.

Senator DURBIN. So, Ms. Goldway, as I understand it, the Postal Service asked the Postal Regulatory Commission to study the 5-day service model.

Ms. GOLDWAY. Yes.

Senator DURBIN. And I think you concluded by saying, "But, they don't have to pay much attention to what you conclude."

Ms. GOLDWAY. The Postal Regulatory Act—the Postal Regulatory Commission, under the act, gives us some very clear, specific responsibilities and some advisory responsibilities. And in this case, with regard to the nature of service, we have an advisory responsibility.

On the other hand, every year we have to make a report on whether the Postal Service has complied with the law, and that means whether it's met its obligations to provide an efficient and fair level of universal service.

So, if they don't take our advice on this, and, at the end of the year, they've entered into an activity that we deem has—is less than universal service, we could find them out of compliance and require them to start up some new activity again. But, we could not tell them, at the time of our advisory opinion, what to do.

So, it's—our—we—just as the Postal Service is trying to learn how to operate under this new law, which has given them price flexibility and product flexibility, but at the time of the—of a recession, we are learning, as well, how to regulate the Postal Service with both new law—new responsibilities and power, but less power than we had in certain areas with regard to rates, before. It's a balancing act that we will have to implement.

Senator DURBIN. I'd ask who wrote the law, but I know. So, if the Postal Service ignores your advice, they may have a day of reckoning ahead of them, when you make your annual report and have the power to order them to do certain things.

Ms. GOLDWAY. That's right.

Senator DURBIN. And I guess I'd have to say, bluntly, that Congress can ignore both of you. And for 27 years, we've been including a sentence, which no one has noticed, in this appropriation bill, which is, "Maintain 6-day service and rural service across America at 1983 standards." I don't think it was ever brought to my attention until a few weeks ago, because it became so routine. But, it is within the power of Congress in general, perhaps this subcommittee, to make that decision, regardless of what the PRC, Postal Regulatory Commission, or the Postal Service decides. I don't want to speak for—

Ms. GOLDWAY. Right.

Senator DURBIN [continuing]. Anyone else on the subcommittee. I certainly would like to hear an evaluation of this proposal from those who look at it seriously. You talked about facing this in the past and asking some hard questions about what it meant and whether it saved as much money as proposed, and so forth. That is all reasonable, and I think we're dutybound to try to reach that.

Now, what about this idea—and I think Mr. Herr referred to it, about the quiet summer months—what about this idea of a pilot project on 5-day delivery. Can this be done? Does the Postal Regulatory Commission have to be part of that decision?

Ms. GOLDWAY. I would venture to say, if the pilot program is envisioned as something that would potentially be implemented nationwide, then it would be something that would have to come to us for prior approval, as well. If—

Senator DURBIN. Well, it's the nature of—

Ms. GOLDWAY [continuing]. It's just an experiment—

Senator DURBIN. It's the nature of a pilot—

Ms. GOLDWAY [continuing]. Under the law, there's a certain level of experiment that they can undertake without our direct review.

Senator DURBIN. That's the nature of a pilot program, or a demonstration project, is to see what the impact will be in the real world. I don't know if it's even realistic to decide that, you know, a few counties in the—

Ms. GOLDWAY. I'm reluctant—

Senator DURBIN [continuing]. United States will try this.

Ms. GOLDWAY. Yeah. I'm reluctant, without advice of counsel, to be specific, but it does seem, to me, smaller, discrete experiments with service certainly would be possible. After all, while the Postal Service does provide 6-day delivery pretty much uniformly across the country, there are areas where it does not now provide 6-day delivery—either it's a business area, or it's an extremely rural

area—so that its opportunity to provide 5-day delivery in some experimental fashion, I think, would be possible without the kind of comprehensive review that we require, or that you would require.

Senator DURBIN. Well, here's the way I'd see it, at this point. And I defer to my colleague to close here, as we hustle off to vote.

As I see it, there are two or three big questions out there about the current economic status of the Postal Service: the \$75 billion question, the \$2 billion question, which you've raised, questions about healthcare benefits that could have a direct impact on the immediacy of this decision.

Long term, I think Mr. Herr is right, we have to look at the Postal Service evolving into a different agency as it faces new challenges that cost money and create more competition.

I'd like to know what the Postal Regulatory Commission concludes, on the issue of 5-day service, before making a final decision. I am not against the idea of a pilot project, if that appears to be feasible or necessary, to see what the actual reaction of postal consumers would be if you tried it in a given area, and to try to measure from that whether this makes good public policy.

We're kind of stuck. It's kind of go or no-go, when it comes to the appropriation bill, in whether we include the language or we don't include it. And, thank goodness, I have the wise counsel of the Senator from Maine to help me reach that conclusion.

And I'll let her have the last word.

Senator COLLINS. Thank you, Mr. Chairman. Those are my last words.

#### SUBCOMMITTEE RECESS

Senator DURBIN. Thanks, everybody. Appreciate your attending this hearing.

[Whereupon, at 4:25 p.m., Thursday, March 18, the subcommittee was recessed, to reconvene subject to the call of the Chair.]